Jukka Gronow

Deciphering Markets and Money

A Sociological Analysis of Economic Institutions

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Preface

This book is an attempt to give at least a provisional answer to two questions that have occupied my mind during the best part of my academic career: What is the relation of sociology to economics, and what can sociology contribute to the analyses of the major economic institutions? From its very beginning, at the turn of the 19th and 20th centuries, sociology's relation to economics and to the study of economic institutions has been rather complicated and ambiguous. Sociologists have repeatedly criticized what they consider the problematic presumptions of economic theory; they have also argued that one should take the historical specificity and the social embeddedness of the economic relations and institutions seriously into account. At the same time, sociology has made, with some remarkable exceptions, only relatively modest contributions to the analyses of modern economic institutions. It has not succeeded seriously in challenging economics' conception as the standard interpretation of economic life.

More recently, however, the situation has changed with growing interest among the sociologists in economic phenomena that has already led to many valuable new theoretical insights and empirical results. The growing importance of economic sociology has certainly many causes. The recent economic crises, the increasing importance of the financial markets and the globalization of economy are certainly among the most evident ones. The neoliberal regime of governance, which has dominated political thinking in Europe, North America, and the world at large during the last decades, has led also to

a situation in which the economic discourse has gained an almost hegemonic position in politics as the interpreter of the economic and political reality. As such, it poses an obvious challenge to the other social sciences and sociology in particular. The present study takes up this challenge. With the help of the classics of sociology as well as modern economic sociologists, it presents a contribution of its own to developing genuinely sociological concepts and theoretical understanding of the functioning of the modern economic institutions. As argued here, economic sociology is in need of a specific sociological theory of the commodity markets and money, the two basic social institutions of modern capitalism that go beyond the general thesis of the social embeddedness of economic relations. Therefore, the central question facing economic sociology, to which this study gives at least a partial answer, is how markets and money are possible and socially constituted.

CHAPTER 1

Introduction: Making the Incomparable Comparable

Economic sociology has experienced a remarkable revival during the last couple of decades, and it has become one of the most innovative fields of sociological research. The drastic recent economic developments—the financial crises above all—took many analysts and experts by surprise. Changes in economic policy in Europe, the United States, and the world at large have also contributed to the increasing interest in the sociological analysis of economic phenomena and institutions by offering new, challenging research questions and demonstrating some of the limits and problems inherent in standard economic thinking and reasoning. For example, the various new instruments which have appeared quickly in financial markets, from subprime loans and loan swaps to futures trading and hedging, have become important new objects of study. Financialization and the numerous new forms of financial markets are in many ways a good test for the relevance and validity of both economics and economic sociology. More often than not these analyses have, however, been rather concrete and historical, undoubtedly of great value as such, in trying to come to terms with the new economic world. At the same time, rather few attempts to develop any more general theoretical understanding, for instance about the causes, conditions, forms and consequences of financialization, deregulation of markets, or other important developments in modern economy, have been on offer.

It has been a commonplace in the introductions to the general treatises, textbooks, and anthologies of economic sociology to admit that economic sociology has not had all that much to offer since the classics of sociology active at the turn of the 20th century, in terms of theoretical inventions and developments of its own and even fewer contributions to the sociological thinking in general. In the opinion of many of its advocates, sociology has been good at criticizing standard economics and its basic postulate of rational economic action characteristic of economic activity in general, also referred to as the postulate of Homo Oeconomicus. It has admittedly also offered quite a great deal of interesting empirical and historical studies of all kinds of economic phenomena, new financial markets included. In a sense, it looks like economic sociology—or sociology in general—has not yet passed over the old dilemma of choosing

between abstract theory (in Weber's times presented by Marginalism, and later Neoclassical economics) and economic history (or the historical study of concrete economic phenomena, in the spirit of the German historical school), which Max Weber, one of the acknowledged classics of sociology, posed explicitly in his writings some hundred years ago.

In the introduction to their influential *Handbook on Economic Sociology* (2005: 6), Smelser and Swedberg wrote that

> economic sociology has usually concentrated on three main lines of inquiry: 1) the sociological analysis of economic processes; 2) the analysis of the connections and interactions between the economy and the rest of the society; and 3) the study of changes in the institutional and cultural parameters that constitute the economy's societal context.

Other authors have expressed similar thoughts of the achievements and tasks facing sociological analyzes of economy. Zelizer (2003: 15), for instance, talks about the importance of the social context in which economic decisions are made. However, in her opinion it is important to shift attention from context to content, to the variability of markets, and 'identify the shared understandings that occur within and behind every market, shared understandings that underlie the very possibility of market activity' (Zelizer 2003: 108). At the same time, Zelizer admits that the second alternative is the most demanding and challenging one, with fewer promising examples to show. She also reminds her readers about the parallel approach of extending the economic paradigm of rational behavior to such areas of society that economists have usually largely ignored. In doing so, Zelizer has Gary Becker's (1976, 1998) exemplary studies of, among other things, the family institution and addictions in mind. One could characterize Becker as a representative of intellectual imperialism of economics that purports to make economic thinking all inclusive, while taking some of its more obvious limitations into account.

Portes' (2010)—who has also actively promoted economic sociology—view of the real progress done in the sociological analysis of economy is rather skeptic. As he suggested, each field of sociological study should be able to show three specific contributions of its own: metatheoretical principles, explanatory mechanisms, and strategic objects of research. In his opinion, economic sociology has, in fact, quite convincingly presented some metatheoretical principles of its own. Among them, one could name in particular the critique of the rational choice paradigm as well as the thesis of the social embeddedness of economic phenomena. In addition, it has a great amount of suggestions to the strategic objects of empirical research. However, what economic sociology research is mostly lacking, according to Portes, are systematic ideas and well-argued-for suggestions to the explanatory mechanisms which could seriously complement and compete with the standard explanations of the functioning of economic markets offered in the textbooks of economics. Such

explanations should naturally follow from the metatheoretical principles, and they should also be capable of better coordinating the study of the multiplicity of strategic objects as well as to help to draw general conclusions from their empirical results.

Richard Swedberg's *Principles of Economic Sociology* (2003) offers yet another interesting evaluation of the state and tasks of economic sociology. After a short introduction to the classics of economic sociology, and a description of the 'present state of the affairs,' Swedberg goes, chapter by chapter, through what he thinks are the main topics of research in economic sociology: 1) economic organizations, 2) firms, 3) economic and sociological approaches to markets, 4) politics and economy, 5) law and the economy, 6) culture and economic development, and 7) gender and economy. The structure of Swedberg's book shows his close adherence to the undisputed classic in economic sociology, Max Weber. (Swedberg has in fact written a seminal work on Weber: *Max Weber and the Idea of Economic Sociology,* 1998.) Weber was, above all, interested in the relations between the economy and other social 'orders,' as well as culture. Weber, famous for his work on *The Protestant Ethic and the Spirit of Capitalism* (2010(1905)), would undoubtedly have added religion to Swedberg's list of topics.

With the exception of the markets and the firms, Swedberg's main effort lies in clarifying the relations of economic institutions with other social institutions and processes. Sociologists of organizations have traditionally shared the study and theory of the organization of firms with both political scientists and business economists. This leaves the market as the main economic institution about the functioning of which sociologists should have something of their own to contribute. More generally, the suggested division of labor between sociology and economics leaves sociologists the task of analyzing the social and historical—political, legal, and cultural—conditions and preconditions of economy. This resonates well with Mark Granovetter's (1985) well-known and much-cited thesis about the principal social embeddedness of economic action and its analytic centrality. To study the different forms of this embeddedness is thus reserved to the economic sociologists as their main occupation (cf. also Granovetter's *Society and Economy,* 2017).

In their collection of articles on economic sociology, the editors (Aspers, Dodd & Anderberg 2015: 4) make a useful distinction between sociological accounts of specifically economic phenomena, for instance markets, money, or consumer behavior, and others that do not define economy as a separate dimension of society but treat it on the same footing as the rest of society. Their advice is that, instead of investigating the links between economic phenomena and society, we should presume that all actions, including economic, are social. This is valuable advice, but at the same time it leaves open the question about the specificity of economic institutions and their theory. As social institutions, they obviously share many of the same features as other fields or areas of society and can therefore be analyzed with the general conceptual apparatus of sociology.

Nevertheless, they do obviously also show some important specificities that are not typical, or do not play such a central role, in the functioning of other social formations. Consequently, they would seem to presume their own analytical tools and concepts. As is argued in this study, these concepts circle around the centrality of the comparability and commensuration in economic relations.

It is interesting to compare this approach with Granovetter's in his *Society and Economy* (2017: 1). As he pointed out, 'I present arguments about economic action and institutions that emphasize social, cultural and historical considerations in addition to purely economic ones.' He does this by applying such typical sociological concepts, like norms, values, trust and power in analyzing a great variety of economic phenomena, historical and modern, making extensive use of a great number of previous empirical and historical studies. He does not, however, systematically emphasize—or analyze—the specificity of economic institutions compared to other social institutions, or the historical specificity of the economic relations in a modern capitalist economy.

In contrast to Granovetter's approach, Dirk Baecker (2006), applying Niklas Luhmann's systems theory, begins with the specific system of economy, differentiated from the society and following its own internal principles of functioning. Economy has by no means always been a clearly differentiated social subsystem of its own, the specific function of which is, according to Beacker, the communication of scarcity (Baecker 2006: 40). What is remarkable about the system of economy is that first it, and only it, both creates the problem of scarcity and the means that claim to solve it.[1] Only in the modern, differentiated capitalist economic system does the quest for overcoming scarcity play a central role. In this perspective, it is important to pay attention to the fact that the economic system is connected to the external world through its own specific media, money. Money is always a scarce resource. The medium of money doubles scarcity because it is both 'omnipotent,' in the sense of being a universal medium of exchange that can realize any wishes or goals, and per definition always scarce: one can always have more of it! (Baecker 2006: 53). As a matter of fact, the only distinctions that money knows are quantitative. It is the quest for money and rent that keeps the capitalist economy running and expanding. Capitalism without economic growth, or rather accumulation of capital, would not be sustainable in the long run.[2] Jens Beckert (2016) identifies the peculiar dynamics of capitalism in the openness of the future and the incalculability of outcomes of decision making processes that follow from it. These are central questions in his sociological analyses of the economic organizations and institutions of capitalism.

What unites, in spite of their otherwise widely diverging conceptions, Karl Marx's and Max Weber's theoretical approaches—one could add Georg Simmel to this list—is that they emphasize the historical specificity of the modern capitalism. What makes economic institutions and relations in a capitalist, market economy specific to Max Weber and separates them from other social institutions, as well as its historical predecessors, is monetary calculation or, as he put it, money and capital accounting, which makes comparing the input and output

of economic actions unambiguous and—seemingly—objective. What is typical of the economic action in modern capitalist economy is its formal rationality. (For Weber, calculability and formal rationality were almost synonymous since in his mind, calculability—and commensurability—guaranteed the highest degree of rationality.) To Karl Marx, in his turn, the equal exchange of commodities, the commodity labor power included, mediated through money, and the following self-dynamic process of the accumulation of capital is the basic feature of modern, differentiated economy.

In a well-established market economy, which is characterized by the principle of equal exchange, monetary prices are objective in the sense that they are the same in all acts of exchange independent of who the trading partners might be. They can mostly be taken for granted, and economic agents can orient their actions accordingly. Commodity exchange, or the exchange of equivalents typical of modern capitalist market economies, is by no means the only type of economic exchange. Exchange of gifts played an important role in many previous societies, and gave rise and kept up relations of mutual obligations. In modern economy, they would easily be regarded as corruption. In many societies, riches could change hands forcibly and those in power appropriated them simply with the threat of violence. In a barter economy, the partners exchange their products and services and compare them with each other. The terms of the trade are, however, not as fixed as in the equal exchange and the result of the exchange vary from case to case, from person to person, and are often up to the bargaining skills of the partners. The exchange relations can therefore depend, for instance, on the resources and the urgency of the needs of the particular partners. In addition, cultural norms and local traditions had often a say in what was considered to be a fair price. Even if money can figure in barter too, the prices can vary greatly from one case to another or they tend to be traditionally established. In other words, the institution of money is not in the same sense constitutive in the barter, or any traditional economic formation, as it is in the 'real' market of commodities.

It is true, almost tautological, to claim that economic institutions, like all institutions, are socially embedded. Otherwise they would not be social institutions at all. The claim defended here is stronger: markets and money are historically specific social institutions and therefore one has to analyze their specific social constitutions. This means that the economic sociology of the capitalist market economy has a theoretical approach or frame of reference of its own, with tools and concepts of its own. Following Weber, we can identify them in money and capital accounting; following Marx, who perhaps more than anyone else emphasized the historical specificity of the capitalist economic formation, we can identify them in the commodity and money form as the keys understanding the social constitution of the modern capitalist economy. The crucial question is what makes objects traded in the market comparable and commensurate. To put it in another way: how can they have an objective value and a market price?

The lessons learned from analyzing the constitution of economic markets do not restrict themselves to the understanding of phenomena normally regarded as economic. In these times of neo-liberal regimes of governance many social organizations which traditionally operated following other principles than those of economic markets, from universities and schools to social care of children and the elderly, from public broadcasting companies to many governmental core agencies, armies and police included, have been outsourced, privatized and 'marketized' in the name of economic efficiency. Marketizing, applied as an almost universal remedy to all kinds of social and economic problems, has created its own problems and controversies (Hirschman 1982). As Miller argues, calculative practices and accounting are a key resource of the 'liberal' form of government (Miller 2001: 381). Using the example of the managerial, or cost accounting, a practice that has spread rapidly to all economic enterprises, he shows how such calculative practices allow individuals to have 'both the responsibility and freedom to spend money as they see fit' (Miller 2001: 381). Such managerial practices produce an individual who comes to act as a 'self-regulating calculating person.' As Miller states, 'not only can the manager of a global corporation be governed in this (neoliberal—JG) manner, but so too can a doctor, a schoolteacher, or a social worker' (Miller 2001: 381). What makes this new form of governance important is that it has spread widely outside private firms to many public organizations that traditionally have been governed by relatively autonomous professional or politically elected bodies functioning along traditional rules or are what Weber would call 'value rational,' aiming at the realization of substantive values that cannot be expressed in monetary terms.

Many crucial questions of the conditions and consequences of privatization of public organizations circle around the question of commensuration. In order to operate as private markets, or as is often the case, as pseudo-markets with the public authorities as their main or only buyer, they must rely on some market devices—to use the concept developed by Lucien Karpik (2010)—that turn their incomparable or non-measurable goods and services, such as academic and artistic achievements or the well-being of old people, into comparable and measurable entities. This is done, as we know, with the help of such market devices as citation indices and impact factors or counting the minutes a nurse uses per a customer or a patient, possibly combined with some kind of indexes of customer satisfaction. It is easy to agree with Fourcade (2007: 1018–19) who argued that 'we simply cannot have a serious reflection on modernity without addressing processes of commodification, marketization, privatization, and … the powerful role of economics in bringing about these transformations.' Without falling into the trap of the economists' 'imperialism,' it is important to analyze other than economic institutions with the help of the theoretical tools of comparability, calculability, and commensuration, keeping in mind the distinction between heuristic analogies, useful as such, and real commonalities.

In their article, ‘Commensuration as a Social Process,’ Espeland and Stevens (1998) take up the central role of commensuration in many social relations and institutions. As the authors define it, ‘commensuration is the expression or measurement of characteristics normally represented by different units according to a common metric’ (Espeland & Stevens 1998: 315). Prices of commodities are naturally the best example of commensuration. In order that two otherwise totally different kinds of objects, such as bread and shoes, can have the same price, or that we can say that a pair of shoes is ten times more valuable that a piece of bread, both bread and shoes must have valid prices taken for granted by all partners of trade. In other words, their value is expressed in money. However, money as such does not make them commensurate; on the contrary, the use of money as a means of exchange and accounting presumes that the objects exchanged already have an objective—in the sense of shared and taken for granted—value which can be expressed in numerical terms and thus compared with those of other objects. In order to be comparable and commensurable two objects must obviously be measured on the same measuring stock, as if they both possessed one and the same common substance, differing only to a smaller or greater amount from each other. In other words, they must be in some respect qualitatively similar. As we know economics and its predecessor, classical political economy has two suggestions for such a common quality which all objects of exchange share both deduced by excluding other (un)thinkable alternatives. Both suggestions have their own problems. In classical political economy it is the labor in general, or in other words, that they all are products of—different amounts or quantities of—human labor. To neoclassical economics this common substance is their utility, that they are more or less useful to human beings or preferred by them. The first alternative, the most famous representatives of which were David Ricardo and Karl Marx, is usually known as the labor theory of value, or the theory of objective value. The second, which the Marginalist economists, Jevons, Menger and Walras invented a couple of decades after Marx’s *Capital*, which came out in 1868, is referred to as the subjective theory of value. The early Marginalists differed among themselves as far as they thought that the utilities of goods depended on the satisfaction of some kind of objective needs or thought them simply to reflect consumers’ personal likes or preferences, whatever the reasons for preferring one object over another might be. To later neoclassical economists, it has in fact been enough to presume that economic agents can order the objects of consumption according to their preferences. More specifically, according to the concept of the marginal utility, economic actors are presumed to be able to compare the utility of an additional unit of an object or service with the utility of an additional unit of another commodity.

The problem of commensuration does not restrict itself to purely economic processes and relations but covers a much wider range of social phenomena. The problem of commensuration has become more acute with the spread of neoliberal economic policy. It looks like the market logic of exchange would

gradually permeate other spheres of society than economy. The list Espeland and Stevens (1998: 315–316) present is impressive in its extensiveness:

> Utility, price, and coast benefit ratios are common examples of commensuration, although the logic of commensuration is implicit in a very wide range of valuing systems: college rankings that numerically compare organizations; censuses and social statistics that make cities or nations numerically comparable; actuarial projects that attempt to quantify and compare vastly different kinds of risks; commodity futures that make uniform units out of products that may not yet exist; voting, and the pork-barrel trading of diverse interests that often lies behind it; calculation of different kinds of work in terms of labor costs; and the ad hoc calculations of trade-offs among such potentially incomparable values as career and family; bread and depth in scholarship, and freedom and commitment in love.

In short, commensuration transforms qualities into quantities that can be easily compared (Espeland & Stevens 1998: 316). There is an inherent ambivalence in what it accomplishes. On the one hand, by reducing the amount of the measured information, it simplifies reality by making it one-dimensional, as if all other characteristics and qualitative distinctions of the object were either totally irrelevant or unreadable. As such, they can be discarded. Consequently, everyday experience, practical reasoning, and empathetic identification 'become increasingly irrelevant bases for judgment as context is stripped away and relationships become more abstractly represented by numbers' (Espeland & Stevens 1998: 317). As a further consequence, all value becomes relative and the possibility of an intrinsic value, or any absolute or 'higher' value, is denied. There are no priceless objects. This conclusion comes, in fact, in many ways close to what Marx called the commodity fetishism, an essential companion of the capitalist relations of production and exchange. As a matter of fact, also 'real' or more traditional economic markets face the same problem of commensuration which, at least in the case of standard markets, they seem to solve as if naturally or automatically, without the help of any such constructed valuing systems. According to Marx, in commodity exchange the social relations between human beings take the form of the relations between things, thus hiding their real social nature from the economic actors. On other side of the coin, commensuration and the calculative evaluations are often associated with increasing rationality and efficiency, and accounting is regarded as a prerequisite to them, or even identified with them (Espeland & Stevens 1998: 324).

Classification is not, as such, equal to commensuration. It is reasonable to restrict commensuration to such comparing that uses ratio scales or, at the minimum, scales according to which one can say that something is better or more beautiful than another but not necessarily exactly how much better or

more beautiful it is. In other cases, such as the Linné'an system of botanic classification, or the classification of humans in population groups, which Espeland and Stevens use as examples, it would be better to speak simply of making objects comparable for classificatory purposes by identifying their common 'substance' relevant in the context.[3] Once the objects have been classified into homogenous groups, according to the relevant criteria in question, or to use the authors' own example, after classifying all inhabitants into population groups according to some criteria agreed upon—age, gender, ethnicity, etc.—we can also count them and say that there are, for example, more Anglo-Americans than Americans of Hispanic origins in the USA today. However, we cannot say that a human being or a group of human beings is worth more than another, whereas one can routinely say that the price of a commodity is so much cheaper or more expensive than that of another.

In introducing their idea of calculative devices in studying economic markets, financial markets in particular, Callon and Muniesa (2005: 1234) make a useful distinction between the various steps of what they call the singularization of a good. According to them, 'the process of singularization consists of a series of operations resulting in the calculability of the good.' More precisely, after the good has been placed in a frame with other goods and relations have been established between them leading to new classifications that allow comparison, 'the good can finally be calculated' (Callow & Muniesa 2005: 1235). As a matter of fact, Callon and Muniesa downplay somewhat the role of 'real' calculation as a process of quantification, by making it close to Espeland's and Stevens's broad concept of commensuration that comprehends both qualitative and quantitative comparability, both classification and calculation. One can nevertheless agree that 'with this broad definition of calculation, the most appropriate dividing like is no longer between judgement and calculation, but between arrangements that allow calculation (either qualitative or quantitative) and those that make it impossible' (Callon & Muniesa 2005: 1232; cf. Preda 2009: 117).

In classical and neoclassical economics, it is common to presume that the process of comparing and commensuration is no problem or that it has been successfully accomplished, so that the markets can simply take the commensurability and comparability of the goods traded for granted. This presumes, however, first, that the quality of the objects of trade is completely 'transparent' and economic actors are fully informed about them and, second, the goods of any one market are homogenous and substitutable for each other. Such markets are so-called standard markets. It has become commonplace in economics to admit that not all markets satisfy these conditions and that there are, for instance, many cases in which actors are not—or cannot reasonably be expected to be—fully informed about the terms of the trade, or what they are buying and selling after all. In addition, there are markets in which the goods are not substitutable; that is, they are not generic but singular. In both cases the markets could collapse unless some remedy were 'invented' or some

mechanism introduced to compensate for these shortcomings. The classical example of a market suffering from imperfect information are markets of secondhand cars, which are notoriously plagued by information asymmetry, the seller knowing more than the buyer (Akerlof 1970). The markets of singular objects of art that are unique and therefore principally non-substitutable are an example of the second case. Despite these serious shortcomings, which should make the trade of such objects theoretically all but impossible because of the uncertainty of their real quality and value, these markets obviously exist: secondhand cars are routinely sold and bought, so are artists' unique paintings and pictures. These cases of imperfect information are generally recognized in economics, and there are well-known suggestions how to deal with them to make them better adhere to the general laws of economics.

As far as economic markets of standard goods and their prices are concerned, it is presumed that, in one way or another, the commensuration of the traded and exchanged goods takes place automatically, as if guided by an 'invisible hand.' Or to use Alfred Marshall's famous metaphor, it looks like there exists a universal auctioneer who simultaneously sets the market prices reacting to the millions and millions of price offers at any single moment. (Nowadays it might make more sense to use the metaphor of a huge computer that counts hundreds of thousands of operations in a nanosecond, registering every single bid on the market, leading to a market price that guarantees the market equilibrium.)[4] However, many markets of goods and services, including everything from cultural products to many financial transactions, consist of such goods that for one reason or another are difficult, if not impossible, to compare and be valued in any straightforward manner. They effectively resist comparing and commeasuring. The objects do not allow for placement on the same measuring stock because it is not clear what makes them valuable in each case and what they share.

Economics recognize this problem as far as unique objects of art, such as original paintings or sculptures, are concerned. Their pricing does not follow the standard laws of the demand and supply of economics (see e.g., Baumol 1986 and Grampp 1989). The economists can, however, also add that they are rather exceptional products. Even though the acknowledgement of these anomalies is something of a nuisance to those economists whose science aspires to universal validity, it is not empirically devastating because the markets of unique objects of art are quite marginal and lack much economic weight. However, what if this problem of incommensurability is not restricted to these relatively rare art collectors' objects but is shared by many more ordinary objects of consumption too? Status markets, for instance, behave differently from the markets of standard goods. The 'law of supply and demand,' or for that matter the principle of marginal utility, would not seem to apply to them in any straightforward manner. Their higher price could be the sign of a higher status and thus increasing prices would not lead to diminishing demand and sales but, on the contrary, make them more desirable and increase their demand. The markets of

many seemingly ordinary goods—blue jeans are a well-known example—can become differentiated into status markets, which function according to their own principles (cf. Podolny 2005 and Aspers 2010, 2011). Branding is a well-known marketing strategy, which consciously promotes market differentiation making homogenous goods heterogenous, non-substitutable and incommensurate. This cannot explain market differentiation all by itself, however. To better understand such markets and their functioning, one must analyze the mechanism of status competition among the market actors, both producers and consumers. What is the role of the specific status symbols in each case? What is it that ultimately makes some goods or the products of some manufacturers more desirable than others to such a degree that they are in a class of their own and not substitutable for others? These questions have been a standard object of sociological studies at least since Thorstein Veblen's *Theory of the Leisure Class* (1918[1899]).

Status markets are a well-known and classical example of markets with socially determined hierarchies of value. Lucien Karpik (2010) presented commensuration in a more challenging way, if possible, in his highly innovative work on the market of singularities.[5] Instead of talking only about unique objects of art we should, according to Karpik, pay attention to all kinds of singularities, of which objects of authentic art are but a tiny part and an extreme example. What is common to all singularities, including authentic art, is their principal quality uncertainty. Therefore, the evaluation of their relative worth and goodness, which presumes their comparability, is highly problematic. According to Karpik, the main criteria of the singularity of a product or a service are their quality uncertainty, multi-dimensionality, and the following incommensurability. Comparing their quality presumes a holistic approach: the whole is always more than the sum of its parts. In judging and discussing objects of art, paintings, musical performances, movies, wines, or restaurant dinners, and so on, we regularly express our own personal judgments of taste about their respective goodness. These judgments are subjective. We can often also give good reasons why we think that this or that painting or a movie is beautiful, and even claim that it is better than another one, as well as dispute over the value of art. Sometimes we can also reach with the other discussants involved, at least a provisional, agreement about their value. What is however typical of such aesthetic judgments, of which wine tasting is a perfect, or an ideal-typical example, is that they cannot refer to or rely on any common, objective standards or rules of goodness or beauty. Therefore they are often ambiguous and indeterminate. In evaluating them, we rely on our personal judgment power in a way that can be considered aesthetic. There cannot be any guarantee that others share the same judgment with us. Our judgment is just one among all the others and as such always ambivalent and insecure.

Karpik discovered that in order for the markets of singularities to function at all, and not to implode, they have to rely on some kind of market devices that support and simplify the art of judgment and make it shared and less insecure.

These devices vary a lot from one market to another, from critiques, reviews, and cicerones to stars of goodness, sales charts, top-ten lists, and prizes. Customers rely often also on personalized devices, in other words on the recommendations of their personal networks. These are common in the markets of personal services. These devices, which differ quite radically from each other and therefore have to be analyzed in detail in each case, establish what Karpik calls market regimes. According to him, there are four basic market regimes: the authenticity, mega, the expert opinion and common opinion regimes. Market devices, via market regimes, in fact first constitute the economic markets of singularities.

Karpik's singularities cover quite a wide range of goods and services, from all kinds of cultural goods to personal services. The decisive criteria is not, as has been common in many critical treatises of the consequences of the commodification of culture, the 'mechanical' reproducibility or non-reproducibility, or uniqueness, of the objects of art or culture. Karpik's concept of singularity is broader, including all kinds of objects of culture—from art to wine and quality restaurants, from books to movies and musical recordings, from theatre plays and concerts to legal services and medical care, from scientific articles to academic teaching programs, etc. As such, they undoubtedly form a remarkable, and arguably increasing, part of the global economy. One can also quite reasonably argue that in a modern capitalist economy many commodities, which at the first glance do not bring to mind Karpik's typical examples and which are often regarded as standard, share at least some features with the singularities, or objects of art and culture. How does one judge, for instance, the relative goodness and value of a new car model, or a new PC, or the latest model of a vacuum cleaner? An enlightened consumer could certainly rely on standardized technical tests published regularly in the press or on the internet. However, all such tests comprise necessarily only of a certain set of standardized criteria, some of which can be more or less objective (cf. the consumption of gas per hundred miles vs. the comfort of driving). They are, in fact, market devices like many others. Technical tests are labeled objective because technical professionals conduct them, and their expert knowledge guarantees their reliability. In addition, they are standardized from one test to another, from one model to the next. Reviews of art exhibitions or of new movies give a much more subjective impression. In this respect, the distinction between, say cars and movies, has become more relative, partly due to the prominent role of advertising, marketing, and design in almost any branch of trade today. Car dealers are not only selling technically more superior and economically advantageous cars but also images of freedom, safety, luxury, environmental friendliness, or even a good and happy life. In sociological studies of consumption, it has become common to speak about the almost all-inclusive process of aesthetization of the world of consumption and modern everyday life in general. The modern consumer is a hedonist who is never satisfied (Campbell 1987) and never can be sure if his or her experiences are the real or authentic ones that are as good as others'

(Schulze 1992). If this tendency is as real as it looks, it gives a good reason to take Karpik's singularities and their problem of quality uncertainty in the constitution of commodity markets all the more seriously.

Market devices guide the individual tastes towards a common taste and they also create and keep up distinctions of taste. But they do not explain which social mechanisms operate behind them. What are after all the social formations which bind the members of a taste community together and guide their tastes? Sociology has three alternatives to offer for a candidate of such an explanation: fashion, social worlds, and cultural fields, all of which share many common features but also differ from each other in important respects. In contrast to the two social formations, fashion and social worlds, status competition plays an important role in Pierre Bourdieu's analyzes of the fields of culture (1983, 1984) which are therefore closely associated with status markets. What is common to them all is however that they all are aesthetic formations in the sense that they are non-instrumental, unlike organizations or social movements, which aim at realizing some goals external to them. Fashion and social worlds are 'play worlds' if any and their activities can best be characterized, following Immanuel Kant, as being purposive without any purpose or intentional without any intention ('zweckmässigkeit ohne Zweck'; cf. Gronow 1996). It is exactly their self-purposiveness, having an end in themselves, which makes them conducive to the constitution of economic markets, which in their turn are clearly instrumental as such with an explicit purpose to produce profits to the investors of capital.

The three basic institutions, fashion, social worlds, and social fields, have each been analyzed and conceptualized in detail by sociologists, fashion by Georg Simmel (1957[1904]) at the turn of the 20th century, social worlds by Howard Becker (1982), Anselm Strauss (1978; 1983; 1983), David Unruh (1979; 1980), and others in the 1970s. Finally, Pierre Bourdieu (see e.g. 1984; 1995a) analyzed the social mechanisms and functioning of the various fields of culture in his seminal works on cultural distinctions and social capital. In all of them taste plays a central role: They are all collective taste formations and offer a deeper understanding of the social processes behind Karpik's market devices and regimes as well as the markets of singularities in general.

Financial markets, which according to many observers have greatly gained in economic importance during the last couple of decades, offer a challenging object of study in many ways. One can show quite concretely that many financial markets have come into being first with the help of quite specific market devices, some of them legally regulated, some more self-organized and unofficial, and could not exist at all without them. They rely both on mathematical-statistical models of calculation and on the professional judgments of the rating agents and market analysts. The claim of a close parallel between 'aesthetic' markets of culture and art and financial markets might sound strange. Financial markets deal simply with money or financial assets, the value of which is expressed in money and can therefore be easily compared and measured in

quantities of money. Nevertheless judging their quality and 'real' value is highly problematic because they trade in futures. Both their future value and the risks involved are always principally uncertain and unpredictable.

In a classical bank transaction, an individual debtor and creditor often knew each other personally and had accumulated information about the organizations they represented. They could rely on the personal reputation and the credit history of the debtor and their professional expectation of the value of the assets used as guarantee to the loan. In other words, they relied on personal networks as their market devices in evaluating the risks involved. There were always risks involved, and the outcome of the transaction was unpredictable. Modern banking relies instead on all kinds of standardized indices and statistical risk calculations. Stock markets already have a long history. They could not function without their organized trading practices and the daily lists of the stock prices and their volatility. As Zuckermann (1999) has shown, the value of corporate shares sold and bought on the market is dependent on the evaluation done by the professional financial analysts who report regularly on the expected development of their dividends and value. Exaggerating only a little, one can claim that they have the same role in stock markets as art critics have in the art markets. To take another example, capitalist firms could not function without the double-entry book keeping that allows reporting turnover and profitability in annual reports in a highly standardized and straightforward manner. The introduction of the double-entry bookkeeping was a tedious and long process that did not restrict itself to learning to keep the well-known columns of debits and credits but demanded a more systematic classification of the different kinds of expenses and income flows (Carruthers & Espeland 1991; see also Miller 2001). The importance of market devices for the constitution of the market is even more obvious in the markets of derivatives, such as the notorious US subprime loans, sold further bundled together, with relatively high risks but with the promise of high profits. The highly developed formal methods of risk assessment were supposed to guarantee the relative safety of the investors, and a satisfactory profits/risks ratio on the secondary market of these derivatives. Subprime loan markets are a good example of the commodification of risk. Hedging risks did not make them safe but created new risks and turned them into tradeable assets.

The question of the comparability and commensuration of economic objects runs through the chapters of this book. The first chapter presents a short outline of the classical sociologists' often ambivalent relation to the economic thinking of their times. Sociology established itself as a discipline of its own in a largely one-sided dialogue with economics. Economics was to many early sociologists an exemplary social science, which, however, did not fully comprehend the conditionality and limits of its own theoretical reasoning. Max Weber, perhaps more than anyone else, developed his own sociological thinking in an open dialogue and even confrontation with economics, which made him complement it with his own systematic concepts of economic sociology, calculability

and accounting as the central concepts. The chapter ends with a short discussion of a modern classic of economic sociology, Parsons and Smelser's *Economy and Society* (1956), which in many ways laid the foundations for the idea, common in sociological analyses, of the social embeddedness of economic actions and institutions.

The second chapter addresses the question of money, the most central economic institution of the modern market economy, and obviously highly relevant to the question of the comparability and commensuration of economic objects. The chapter starts by presenting two competing conceptions of money, represented, on the one hand, by money as a means of exchange common to both classical political economy and to the standard text books of neoclassical economics and, on the other hand, by the state theory of money, or money as a means of accounting, which had its historical origins in settling debts with the state. As the chapter claims, following Marx's reasoning, the real question to be posed and answered is why and how a commodity expresses its value in money. Marx pointed out that the social form of value and money are an inevitable companion to the society of private and independent producers related to each other in the economic sphere only through the exchange of the products of their labor. The relevance of Marx's question does not depend on whether or not we adhere to his (in many ways) problematic labor theory of value, nor to the equally problematic subjective theory of the utilities of the Marginalists. It does presume that the objects exchanged are comparable with each other and it is not money as such that makes them comparable. Not claiming to have solved the problem of the value and money conclusively, the chapter ends, following Orléan (2014) and others, arguing that value should be understood not as any inherent or natural substance of commodities but rather as a social construct, inherent and realized in the process of exchange.

The next chapter tackles the problem of the principal quality uncertainty of the goods and services exchanged in the economic markets, which makes comparing them difficult or even impossible. Economists reduce the problem to the question of the imperfect information. However, the problem is more complicated and its consequences theoretically more serious, not restricted to the available information. If quality is not any natural substance of goods but a social construct, it is essential to analyze the social processes that determine it. In some standard markets the worth of goods can be rather self-evident and unproblematic due to their conventionality. As a rule, however, there are no objective or general standards to rely on in judging the quality of goods and services sold and bought on the markets. This is true, in particular, of cultural goods and personal services of all kinds, which Karpik (2010) calls 'singularities.' The chapter introduces the reader both to the markets of singularities and to the status markets, which cope with the problem of quality uncertainty in their own ways. It analyzes in detail the role of the aesthetic judgments of taste and connoisseurial judgment devices, introduced by Lucien Karpik (2010), and procedural devices or technical quality standards (see Blanc 2007) in the

constitution of the modern economic markets. It also discusses Karpik's classification of the four market regimes based on the different market devices. They offer a more specific way of analyzing economic markets as social institutions than the general postulate of the social embeddedness of all economic relations. Since the market devices vary between the markets, the economic functioning of the markets also differs quite radically.

As the fourth chapter argues, the four social formations of taste, fashion, social worlds, and fields of culture explain the social processes that lie behind the various kinds of market devices and regimes of coordination, including the status markets. Pierre Bourdieu's (1984) theory of the status hierarchies and cultural distinctions in the fields of culture, Georg Simmel's (1957) theory of fashion, and Howard Becker's (1982) and others' theory of social worlds each offer a developed sociological conceptual apparatus to analyze these formations. This naturally leads to the question, posed in the fifth chapter, about the extension and spread of the non-standard markets, or markets of singularities in the modern capitalist market economies. If we take the thesis of the aesthetization of modern consumption and everyday life as well as the increasing weight of creative industries in the economy seriously, as presented in many interesting diagnoses of our times, the principal quality uncertainty does not plague cultural goods or personal services alone but is typical of most, if not all, consumer goods markets, most durables included. In other words, they are all dependent on the social formations of taste.

Financialization has been a very prominent global trend in the world economy during recent decades, accompanied and promoted by the invention and introduction of many new financial assets, derivatives, futures, and options. This has opened up new kinds of financial markets by homogenizing different capital assets, thus making them liquid. As the sixth chapter shows, these markets are not only in need of market devices but, very concretely, they first create and make them possible at all. Financial markets rely on both kinds of devices, connoiseurial, in the shape of the market analysts, and procedural, in the shape of the mathematical-statistical models. Their main task is to commodify risks and make them marketable. The chapter ends up with a discussion about the performativity of economic theory. The general conclusion is that even though it is possible to identify some rather clear cases of performativity, or counter-performativity, in the new financial markets, it makes more often sense to analyze how the market devices, created with the help of economic theory, 'only' constitute financial markets.

In addition to summarizing the main results of the book, the concluding chapter takes up some more general consequences to economic policy of the idea of the social constitution of the economic markets, as well as of the role of the various kinds of market devices and taste formations. A policy that promotes privatization and marketization 'of almost everything' believes that it solves many, if not most, economic and social problems by increasing economic efficiency, the freedom of the individual market actors, and, in the last

instance, the general well-being of the citizens. If anything, the reasoning in this work proves that any general conclusions about the market performance are highly dubious because economic markets, in particular the new markets or pseudo-markets, created by political measures with the help of economic and legal experts, differ greatly from each other depending on their specific market devices and their social constitution. So does their economic performance and the general social consequences of their establishment. Just as the new financial markets have not succeeded in minimizing risks, but only changed their character by turning risks into a marketable commodity, the market devices used in evaluating and measuring the quality of the performance of other kind of economic organizations analyzed in this study never succeed in abolishing the principal quality uncertainty conclusively. It only changes its appearance in order to show up in another form. It does not make any sense to claim in general that markets tend to make optimal use of the economic resources in order to satisfy the individual preferences of the consumers if their preferences are unstable and remain largely indeterminate.

CHAPTER 2

Economic Sociology in a Theory-historical Perspective

Classical sociology and economics

The emergence of sociology as an academic discipline is usually dated to the last decades of the 19th century and the first decades of the 20th century. In later codifications of its history, the list of its founding fathers varies a bit in different accounts, but at least Emile Durkheim from France and Max Weber from Germany are unanimously counted into them. The position of some others, for instance Thorstein Veblen from the USA and Georg Simmel from Germany, is less certain. However, as sociologists commenting on economics and developing an alternative conceptions of major economic institutions they easily exceed the achievements of Durkeim and can well compete successfully with Weber for the title of one of the founding fathers of economic sociology. The classical sociologists who were looking for the legitimation of the new science they claimed to represent faced a dual challenge from economics and psychology (Noro 2016). Economics and psychology had established themselves as independent fields of academic study only shortly before. Modern science of economics stood on the shoulders of the classical political economy that had been part of the project of European Enlightenment at the 18th century. It was also associated with the somewhat younger and influential philosophical doctrine of utilitarianism. Psychology had, in its turn, emerged as an independent discipline in Germany with Wundt's studies of consciousness and the mind based mostly on introspection. The new science of sociology distanced itself from them both and criticized them, explicitly or implicitly, for their individualism and/or utilitarianism. The new field of sociology was presented as an alternative to the Anglo-Saxon utilitarianism and the new Marginalist economics, which it claimed was principally wrong or at least seriously restricted in its understanding of human action and social institutions. On the other hand, economics acted in many ways, not only as a contrast but also as a model of a theoretical—or 'abstract'—science of human behavior. However, in particular in the German context, economics was understood to be closer to natural science than history, which was the general guide to understanding human action. This was the case with the older German school of historical economics. The competition

between the new theoretical or abstract school of economics with the old historical school left deep traces in the emerging sociology's understanding and analysis of human action and economic institutions. This is most evident in the writings and self-understanding of Max Weber as a sociologist. He developed his sociology in close dialogue with the economists and economic historians of his time.

Less explicitly than Weber, Emile Durkheim took a critical stance to economic thinking as his starting point to his own theory of society. His target of critique was not so much economic thinking as such but rather the closely related idea of the social contract and its false assumption that social order was based on the private interests of the individuals and conscious agreements between them. He was also an ardent critic of the philosophical doctrine of utilitarianism, which understood private interests in terms of the pursuit of the happiness of the individual as the driving force of social life. In so doing, Durkheim came to postulate, in his early works *The Division of Labour* (1997 [1893]) and *Suicide* (1951 [1897]) as well as his work on methods (1982 [1895]), all published before the turn of the 20th century, social norms which are collective and over-individual and which explain and guide—or even dictate, to some degree—the behavior of all the individual members of a society. These collective norms exist before and independently of the consciousness of any single individual. Individuals born into the society become gradually socialized into the prevailing norms by their parents, peers, and other social contacts. This does not mean that such norms could not change at all, but their development is not the result of any conscious act of any individual actor or actors. For the most part, individuals take these norms and rules as given in orientating their social actions. Even though Durkheim did not develop his ideas into a fully fledged theory of social institutions, later sociologists have analyzed social institutions, whether private or public, economic or familiar, as a set of relatively stable and well-established social norms and role sets. This understanding of the social institutions can well be called proto-sociological.

The American classical sociologist—or institutional economist—Thorstein Veblen presented the most systematic and poignant critique of the rational choice theory, which he saw as the fundamental mistake in the reasoning of modern economic theory. In this respect, he is unsurpassed even today. Economics, as he wrote, 'can take account of conduct only in so far as it is rational conduct, guided by deliberately and exhaustively intelligent choice' (Veblen 1932 [1919]: 235). As he added, 'it deals with this conduct only insofar as it may be construed in rationalistic, teleological terms of calculation and choice' (Veblen 1932 [1919]: 239). Veblen argued instead that

> an adequate theory of economic conduct, even for statistical purposes, cannot be drawn in terms of individual simply—as in the case of marginal-utility economics—because it cannot be drawn in terms of the underlying traits of human nature simply; since the response that goes

> to make up human conduct takes place under institutional norms and only under stimuli that have an institutional bearing; for the situation it provokes and inhibits action in any given case is itself in great part institutional, cultural derivation (Veblen 1932 [1919]: 242).

For Veblen it does not suffice to enrich the economic model of action with some sociological or normative elements since its conception of action is principally wrong, and therefore the whole model has to be overhauled.

Veblen's basic idea, which he shared with other pragmatists of his time, is the habituality of human action (cf. Kilpinen 2000). According to him, people do not usually act by making decisions or conscious choices at every step, even less do they rationally ponder the possible results of their actions. Mostly they act habitually. Consequently, the economic image of the rational actor who makes conscious choices using his or her own preferences is principally wrong—or valid only in some exceptional cases or situations. According to Kilpinen's interpretation of the pragmatist's concept of human action:

> while human individuals produce their own institutions by their habitual doings, they are themselves produced by these same institutions. The institutions make up the arena and the material for the doings of individuals, and they are the inescapable framework which both constraints and enables individual action. (Kilpinen 2000: 206).

People can act more reflectively whenever confronted by novel situations that pose a challenge to them and their previous ways of behaving. In Veblen's understanding, habituality and rationality are, however, not necessarily opposed to each other. Even habitual action can be and is often perfectly rational, a 'reasoned habit.' One could also add, that the Homo oeconomicus of the Marginalist economists—or of later neoclassical economics codified by Alfred Marshall in 1890—does not, unlike the pragmatists' actor, really act at all but is only presumed to make decisions equipped with total information about the relative worth of the alternatives open to him or her (Campbell 1998).

Despite this rather devastating critique targeted at the fundamentals of Marginalist economics Veblen never developed any systematic alternative theory of modern market economy. However, his works offer many very insightful and comprehensive analyses of modern economic institutions from an evolutionary perspective. Each social and historical institution obviously demanded, in his opinion, an analysis of its own. However, they could apply some common theoretical and conceptual starting points. His most famous work, *The Theory of the Leisure Class* (1918 [1899]), with its idea of conspicuous consumption, or showing-off, which analyzed in any ordinary sense a totally irrational type of consumption, has become a classic of the sociology of status and consumption. It has many followers, from Vance Packard's *Status Seekers* (1960) to Pierre Bourdieu's *Distinction* (1984). The leitmotif of Veblen's study is the

gradual evolution of human societies from a stage governed by the spirit of workmanship to a society in which relations of money dominate and pecuniary wealth becomes a source of status instead of work performance. Since pecuniary wealth is mostly invisible to the eyes of others and therefore cannot receive the admiration it deserves, it must be expressed in all kinds of acts of conspicuous consumption. In addition to his arguably most famous work on the leisure class, Veblen published extensively on economic issues, business cycles, absentee ownership, higher learning in America, and the industrialization of Germany and the conditions of its recovery after the First World War. All these analyses emphasized the institutional and historical setting of economy and economic action.

Georg Simmel's work can with good reasons be considered a classic of economic sociology too. His main contribution to the study of modern economic institutions is his major work, *Philosophy of Money* (1989) which came out originally in 1900. He did touch upon many aspects of the modern economic life, in particular the cultural consequences of the use of money, in many other works and essays as well. *The Philosophy of Money* is divided into two rather distinctive parts; the first part analyzes the constitution of money and presents Simmel's original theory of value and valuation, while the second part concentrates on the multiple social and cultural consequences of the general use of money in social intercourse. It is mainly these last issues that Simmel develops in his other essays too, most notably in his best-known essay, 'The Metropolis and Mental Life' (2002 [1903]), where the social interaction in the big city becomes a model for the social relations in all of modern society, with its overwhelmingly intellectual and calculative character. Typically, Simmel acknowledges both the liberating potentials inherent in the metropolitan way of life, which allows the individual more freedom, as well as its constraining aspects. At its worst, it threatens to submit the subjective culture, or the life-world of the individual, under the increasingly dominant objective culture—or objective social institutions, most notably, money. Simmel's theory of economic value is but a special case of a general theory of value, or valuation, and at the same time its primary example.

These three classical sociologists, Durkheim, Veblen and Simmel, have the honor of standing for three different sociological foundations of the analysis of economic action and relations in later economic sociology. Durkheim's general critique of utilitarianism and methodological individualism as well as his emphasis on the importance of social norms and institutions resonates most directly with the thinking of the school of economic sociology, often associated with Mark S. Granovetter's important contributions, starting from *The Strength of Weak Ties* (1973), his famous study of the different kinds of social ties in economic relations, to his general treatise on economic sociology, *Society and Economy* (2017). They have had an important impact on sociological discussions since the late 1970s. Granovetter coined the term 'social embeddedness' of economy, and it has become commonplace in much of economic sociology

(Granovetter 1985; see also Barber 1995); however, Parsons and Smelser, in trying to come to terms with the relation between sociology and economics in their *Economy and Society* from 1956, had already analyzed in detail how economic institutions are embedded in other social institutions and how these, in their turn, are embedded in the system of economy. They formulated their theoretical framework in terms of the functionalist systems theory. Embeddedness refers in general to the fact that economic relations are, just as Durkheim and Veblen thought, always dependent on social rules and norms. In other words, they are social institutions. This is equally true of economic markets, money, and the relations of labor. This idea has become almost a basic sociological wisdom or truth. The main difference between these two sociologists is that whereas Durkheim polemically postulated a separate sphere of objective norms and values, Veblen emphasized that it was the habituality of action that ultimately constitutes social institutions (A. Gronow 2011). Veblen's evolutionist perspective was also alien to Durkheim, but later sociological institutionalists have followed it (see e.g., Hodgson 1999).

The evaluation of the reception and role of Simmel's thinking among later sociologists who have developed economic sociology is more problematic. Simmel was, after all, the only one among the early sociologists who wrote a major concise treatise on the main institution of modern market economies, money. Until quite recently, it has however received relatively little attention. This is particularly true of the first, analytic part of his work, or the analysis of the social constitution of money. I shall pay more attention to it in the chapter on money. Simmel's various contributions to the analysis of the social and cultural consequences of the use of money and the objectification of culture are in their turn regularly referred to in the sociology of culture (Frisby 1992; Frisby & Featherstone 1997). Simmel associated them with many of the same features, calculation, rationalization, and objectification as his contemporary and copatriot Max Weber.

Our fourth classical sociologist, Max Weber, has arguably come to play a more prominent role in later developments of economic sociology than the three others. His conceptual framework of economy in his posthumous work *Economy and Society* (1968a [1920–21]) acted as a model for Parsons and Smelser, who published their book with the same title as Weber's in 1956. Weber's reputation is in many other respects also unsurpassed in social science if one takes into account his impact on many later sociological and historical studies and disputes, including methodological, theoretical, and empirical. One has only to consider his contributions to the dispute about the value freedom of social science or of his study of the historical genesis of modern capitalism, not to mention his ideas about the specific nature of modern capitalism. However, his role in modern economic sociology has a more specific explanation. Richard Swedberg, who has written many treatises and edited several volumes on economic sociology, starting from his and Smelser's influential *Handbook on Economic Sociology,* first published in 1994 (2005), and his

own systematic study of Weber's economic sociology (Swedberg 1998), has taken many of Weber's ideas on economy, economic history, and theory as his own and developed them further. Weber's central role as a guide to later developments is understandable because, arguably more than any other, he wrote about all kinds of economic institutions and organizations, from stock exchange to capitalist firms, from market competition to fiscal policy, in analyzing the relations between economy and other social institutions (Maurer 2010). In doing so, he also commented widely and critically on many important works on economics and economic history. Above all, he explicitly posed the question of the relation of his—then brand-new—sociology to both economics and history.

In fact, Weber waged a war on two fronts. He had to clarify the position of his sociology not only in relation to modern economic theory, or Marginalism, but also to the German historical school of economy and history in general—during his lifetime the dominant mode of economic thinking in Germany. The new Marginalism was in fact a new challenger to this older historical school. Weber faced the task of developing an alternative understanding of economic action and institutions, as a competitor, or at least a complement, to economic thinking of the historical school. He also felt obliged to determine the methodological status of sociology in relation to the 'abstract' or theoretical economics. In his understanding, theoretical economics operated with general concepts, whereas economic history operated with concepts that designated unique individual events, or 'historical individuals.' Even though influenced by the Neokantian doctrine, in particular Heinrich Rickert's teachings (Ageval 1999), Weber did not share its idea of the crucial distinction between natural science and humanities that was central in the German Methodenstreit. His problem was the place of social inquiry or, if you like, social sciences in this division of labor. As Lepenies (1992) pointed out, to Weber, sociology presented a 'third way' in between (natural) science and humanities, or history, a position that, according to the Neokantian theory of knowledge, which many German academics shared in his time, was in fact principally impossible. There was no place for a natural science, with its general laws and theoretical concepts, in understanding human societies and the meaningful actions ('sinnfulles Handeln') of human beings. Marginalism, operating as if it were a natural science, was thus an anomaly. Many of Weber's famous methodological ideas and solutions become understandable in this context, from the ideal types to the combination of understanding of the meaning of action with causal explanations. Additionally, he insisted on the value freedom of science, the concept formation of which depended, however, on general cultural values. Weber thus combined elements of the methodologies and principles of the concept formation of both (natural) science and history that, according to the Neokantians, totally excluded each other. However, to him, it was not enough to try to clarify the division of labor between economic history and economic theory. His ambition

was to create a new alternative to theoretical economics—namely, economic sociology. (See, however, Mikl-Horke 2010: 114.)

Following Swedberg (1998), one can say that Weber's interest in economic phenomena consisted of three central elements. He set as his task to clarify the following:

1. The historical, social and cultural conditions of the emergence of modern market economy or modern capitalism. (Weber's famous work on the Protestant ethic and the spirit of capitalism was dedicated to this question.)
2. The social and cultural consequences of modern capitalism, always seen through the lens of the process of rationalization.
3. The theory or the systematic conceptual analyses of modern capitalist economics or modern economic institutions, such as the market and the firm.

Many of his efforts concentrated on the first two questions, that is, the historical conditions and origins of modern capitalism as well as its cultural consequences. Weber wrote in many treatises about the cultural consequences of capitalism, or more specifically in what ways economic activity—for instance the generalized money accounting typical of modern capitalism—leaves its impact on other areas of social life and culture. In particular, he identified processes of increasing rationalization, typical of modern capitalistic economy, but also evident in almost all other areas of modern life. For example, in his sociology of music he analyzed the Western tonal system as a good example of the process of cultural rationalization and calculation (Darmon 2015). Weber was, however, by no means a historical materialist who would have searched for the determination of culture and art in economy. On the contrary, he explicitly criticized historical materialism for its shortcomings and one-sidedness. Instead of causal relations, he preferred to refer to 'Wahlverwandtschaft,' elective affinity, or the cultural homologies existing between different social 'orders' or institutions.

Marginalism—in particular, its Austrian variant in the figure of Carl Menger—played a decisive role in Weber's own systematic conceptual analyses of modern economic institutions, such as markets, price formation, and the firm. At the same time, he maintained a critical stance to it. The school of Marginalist economics had as its starting point the idea that the marginal utility is equal to the additional utility that the consumer gets from one more unit of the product in question. This determines its value to the consumer and the price they are ready to pay for it. Weber's relation to it was ambivalent. Swedberg (1998: 25–26), for instance, questioned whether Weber in fact shared this conception in his economic sociology. Despite the fact that Weber questioned many of the presumptions and conclusions of the new Marginalist economy, it was without any question in many ways an important, at times explicit, point of reference to him in his critical appraisal of the contribution of economics to the understanding of modern societies.

The advent of Weber's *Economy and Society* and the tasks of economic sociology

The historical background and context of the advent of Weber's manuscript *Economy and Society* (1968a [1920-21]) in many ways clarifies many of its features which may, at the first glance, look peculiar to its reader today. Before the First World War the German publisher Paul Siebeck asked Weber to edit a handbook of political economy that could take the place of Gustav Schönberg's old Handbuch der politischen Ökonomie, *Handbook of Political Economy* (from 1880), as the standard German book of reference. He started on this big project in the end of the first decade of the 20th century. He called it Grundriss der Sozialökonomik (*A Ground Plan of Social Economics*).[1] Weber's posthumously published work, *Economy and Society*, was originally planned as his own contribution to the first volume of this multi-volume handbook which would deal both with economic theory and economic history. He did not manage to edit and publish the whole series.[2] He never finished his own manuscript either, and it remained fragmentary, consisting of various parts written at different times. The chapter on the sociological concepts of economic action written for *Ground Plan,* which he succeeded in finishing, includes the basics of his economic sociology.

According to Weber's original plan, the first part of *Ground Plan* would consist of three comprehensive volumes, the first of which was *Economy and the Science of Economy.* Karl Bücher wrote for this first volume about economic history (1914), Friedrich von Wieser (1914) about the theory of socioeconomics, and Joseph Schumpeter (1914) about the history of economic thought. Schumpeter's work came out later in a revised English version, *Economic Doctrine and Method* (1954a). It became a standard textbook for some decades. The second part of the *Ground Plan of Social Economics* dealt with the relation of nature and technics to economy, as well as with geography, population, and consumption. It included, among others, Friedrich Gottl-Ottilienfeld's (1914) major study on the role of technique in economy. Gottl-Ottilienfeld's work became, together with Schumpeter's contribution, a standard work of reference in the German-speaking world between the two world wars. The other parts of this series, which were published first after Weber's death after the First World War, dealt with many other important issues of economy and economic policy, among them international trade and trade policy.

What was then after all the role that Weber had reserved to himself in his ambitious project? Even more, what was the role of sociology in it? He set it as his task to write the third book of the first volume of the series. From the start, he had thought of writing about the relationship between economy and other social orders as well as about the cultural and social conditions of different types of economic action. The original plan consisted of three parts, the first of which dealt with economy and law, the second with social groups, and the third with economy and culture. The last one carried the subtitle 'A Critique of Historical

Materialism.' Weber also planned a chapter on economy and race, but he soon left it to Robert Michels to write. The only part that Weber managed to finish before his death was 'Economy and economic orders and powers.'[3]

One of Weber's last writings, written in 1919–1920, was the relatively short chapter later included in *Economy and Society* entitled 'Sociological Categories of Economic Action' (Weber 1968a: 63–206). It can be regarded as his basic contribution to economic sociology in the strict sense of the word. Originally, he had thought of writing a methodological chapter on the object of the basic concepts of economics and their logical nature. Its task was obviously to put the economic writings of the other contributors of the series in their proper place by showing how economic theory was—at least partly—valid if only it understood its own limitations and cultural conditions and acknowledged complements from history and sociology. It appears that Weber had thought that Wieser's contribution would be an adequate presentation of economic theory and therefore there was no need for him to deal any more with its basic concepts. Insofar as Wieser acknowledged the validity of the subjective value theory of Marginalism, but claimed that it could not explain the formation of empirical market prices, his approach was in line with Weber's own. Wieser thought that it was important to pay attention to the changing historical and social conditions of the process of economic evaluation. (Wieser 1884: 40; cf. Schluchter 2009: 24 and 47–48).

Both Karl Bücher's writings on the historical stages of economic development and Friedrich von Wieser's on economics turned out to be disappointing to Weber. Bücher's part was the less problematic of these two (Schluchter 2009: 36–37). It was a rather standard and short textbook presentation of the historical stages of economic development. Wieser's writings caused more headache for Weber. Wieser thought that economic actors do not act all by themselves but are subordinated in their interaction to social forces that are often more powerful than their own private interests. As a conclusion, Wieser, just like Weber, emphasized the role of the legal regulations and the struggle for power in the economy and public life (Schluchter 2009: 48). In his contribution to Weber's *Ground Plan*, Wieser did not, however, advance this question any further. Consequently, he ended up in a theoretical cul-de-sac: the theory of marginal utilities is a valid theory, but it is of little help in determining empirical prices. This could well be one of the reasons that Weber felt obliged to develop his own concepts of economic action and add them to the planned volume (Schluchter 2009: 81). He might also have been uneasy with Wieser's solution to the problem of how to advance from the study of individual economic actions to the social actions of several actors in the market (Swedberg 1998: 160). Wieser made a distinction between a 'simple economy,' consisting of only one economic actor, and a 'social economy,' consisting of several actors. However, he did not, according to Weber's judgment, build the necessary conceptual bridge between these two constellations. This question must have been quite central to Weber because of his principal methodological commitments.

He was consistent in his methodological individualism, emphasizing that sociology should be able to deduce all social formations conceptually from the meaningful acts of single individuals. In his own presentation, he made a distinction between the struggle inherent in any act of exchange and the real competitive market struggle. In the first case, two individuals engage in the exchange of products, the outcome of which is always principally uncertain. When, instead, real competition reigns in the market, many actors engage simultaneously in buying and selling, and consequently, the outcome of every participant's action depends on the actions of the other participants in the market. Weber made also a distinction between the 'formal validity' and 'substantive validity' of money as a means of exchange, the first one referring to its value in exchange, the second to the fact that it is accepted as a means of payment usually guaranteed by law (Weber 1968a: 74–75). In the end, Weber did not solve the problem of how to deduce the conditions and results of social interaction from the meaningful actions of individuals. As a consequence, he could not show how the objective market prices evolved from the struggle between anonymous market actors any better than Wieser could. He referred to the process of mutual bargaining on the one hand and social struggle on the other. As if by common consent, the market actors had agreed on the use of money and objective, monetary prices. However, as he readily admitted, this was just a way of speaking ('as if') and no real explanation (Bader et al. 1976; see also Lichtblau 2000).

Weber's big project, *The Ground Plan of Social Economics,* to which he dedicated some fifteen years of his life and which he never finished, was a heroic attempt not only to synthesize the economic knowledge of his times in order to solve all the major questions concerning both the conditions and consequences of modern capitalism, but also to develop an alternative sociological complement to economic theory. Weber's huge project was delayed several times. These delays were caused by dramatic historical events, including the outbreak of the First World War and personal problems, both his own and his co-authors'. His premature death in 1920 terminated his project and no one has dared to attempt anything nearly as ambitious ever since. Most of Weber's own extensive, but fragmentary and often hard to decipher, contributions and comments were published posthumously, mostly without paying attention to their original context.

Weber's critique of the theoretical postulates of Marginalism

The Marginalist 'revolution' in economics is usually dated to the 1870s when, within a couple of years and independently from each other, three main works with ideas resembling each other came out: Stanley Jevons' *The Theory of Political Economy* in England (1871), Carl Menger's *Grundsätze der Volkswirtschaftslehre* in Austria (1871) and Leon Walras's *Elements d'economie politique pure*

ou theorie de la richesse sociale in France (1874). Marginalism provided, among others, a solution to the famous diamond paradox: Compared to pure water, diamonds are of little use to man, but they are much more expensive; water is a life necessity but very cheap or available practically free of charge. As a consequence, the relative value of any one commodity cannot be deduced from its utility to a human being or its capability of satisfying any human needs as previous political economy assumed. The theory of marginal utilities could solve this paradox by taking into account not only the utility of an object but its marginal utility due to its relative scarcity and availability. Scarce commodities have a greater value because the utility of an additional item of them is big. Therefore, diamonds, which are relatively useless are expensive; water, a life necessity, but freely available, is cheap. More precisely, the marginal utility of a commodity is the value that one more item of the commodity adds to the satisfaction of the needs of a consumer. It can be presumed that these utilities tend to decline asymptotically with the increasing amount of one and the same commodity until finally an added unit does not make any difference at all in the satisfaction of the need. Therefore, the absolute utility of a commodity can be significant even if its marginal utility is small or almost non-existent. As Menger (2007 [1871]: 132) formulated, a bit cryptically, in his principle of marginal utility:

> the value to this person of any portion of the whole available quantity of the good is equal to the importance to him of the satisfactions of least importance among those assured by the whole quantity and achieved with an equal portion.

Marginalism was not initially a unified doctrine. It was codified in Alfred Marshall's *Principles of Economics* (1890), which presented the determination of the prices of commodities as a function of their supply and demand. Paul Samuelson's *Foundations of Economics,* published in 1947, mathematically formalized the basic principles of what became known as neoclassical economics in a systematic way. It became the standard textbook of economics for several decades.

Weber was familiar with the early Austrian school of Marginalism with Menger as its founding father and Wieser and Böhm-Bawerk as his close followers. It differed from its English and French counterparts in many important respects. The theoretical status of the concept of utility varied among the early Marginalists. For instance, Menger, in the spirit of the classical political economy, still spoke of human needs as something that were objectively given:

> 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 (Menger 2007: 116).

He even provided a classification of human needs, in terms of their relative importance, which he regarded as universal.

Gradually, the Marginalist economists developed the concept of utility, abstracting it from its physiological or psychological foundations,[4] and understood it simply as a subjective preference or a set of preferences that are expressed in the concrete choices—whatever the reason for preferring one item to another might be in any one case. For the purposes of the theory of relative market prices and the market equilibrium, it was enough to order the goods on sale on a market according to the relative preferences of the buyers. It presumed that the economic actors were fully aware of the order of their own preferences and that these preferences were independent from each other and remained stable.

As Stephen Parsons (2014: 3) has shown, Weber's stance regarding the concept of utility differed from Menger's, as he emphasized the subjective nature of individual preferences. He left the relative utility of an economic object to the subject to decide. The Austrians did not consider marginal utility as a derivative of the total utility. They also did not advocate for the formalization of economics, for which Walras strongly advocated. Weber, in his turn, seemed to be in favor of formalization, even though with the important reservation that only the theoretical ground plan of economics based on the presumption of the pure type of rational economic action could be formalized, and not the analyses of any real empirical economic activities or relations which often differed quite drastically from those theoretically postulated (Parsons 2014: 14, 23).

If, following Stephen Parsons (2014), one can reasonably presume that Weber shared many, if not necessarily all, of the basic theoretical presumptions of Austrian Marginalists, it is difficult to explain why he did not simply refer to them and repeat their teachings in his own writings but went into great deal of trouble in order to develop his own, quite unique, categories of economic action. Weber's explicit comments on some specific ideas of Marginalism do not explain it either, nor do they explain how he distanced himself from some of its more specific conclusions.

What united Weber's economic thinking most notably with the basic assumptions of the Austrians was, after all, his understanding of the methodological status of economic and social theory. Economics was to Menger an exact theoretical science and as such, alien to empirical reality. It left an open space to history and sociology. Therefore, it was in need of concrete studies that complemented it. To Weber, economic theory could not be anything else but an ideal typical construct that was useful and necessary for heuristic purposes but could not cope with any causal deductions or predictions about the future. Consequently, in his understanding, economics did not differ all that much from the idea of his new sociology, which operated with pure, or ideal typical, concepts; the more abstract, well defined, and alien to the concrete reality the better. However, Weber did not share Menger's and other Austrian economists' idea that economic analyses should be complemented and approach reality

with all its empirical richness by taking into account new factors, describing new dimensions or layers of the multi-faceted reality, whether historical, psychological, or sociological. In Weber's opinion, sociology could, in fact, help economics by first, showing the limits of the 'pure' economic theory and, second, complementing it by offering additional theoretical concepts of social action. Their purpose was not to add up to a richer, more concrete, picture of reality but rather complement the analysis with alternative or parallel—equally abstract—conceptual tools and interpretations. In the end, the picture would not get more concrete, but the rich empirical reality could be analyzed with alternative conceptual frameworks seeing which one of them, or perhaps a combination of them, could best make us understand the meaning of economic action in any concrete, historical case.

Weber did share an important starting point with modern economic theory. Both his methodological writings and systematic sociology emphasized that sociological analysis should begin with individual action. In addition, instrumental rationality—the choice of the best and most effective means to reach a goal—played a central role in his sociology. In inspecting and analyzing social action it is, in Weber's opinion, often useful to presume that it is rational in the above sense. In reality, actions only seldom coincide with this 'ideal' type of rationality, but one can nevertheless question to what degree any single act converges to or diverges from purely rational actions. He was, however, keen on emphasizing that this was simply a sort of thought experiment and did not claim anything about human nature. In reality, ideal types and concrete action hardly ever coincided, 'real' action only rarely followed the pattern of its ideal type (Gronow & Töttö 1996: 305–312). The principles of legal casuistry inspired Weber's concept formation (Turner & Factor 1992).

Instrumental rationality was by no means Weber's only ideal type of action. To him, there are other types of action, which are quite as important in understanding social and economic phenomena. It was not possible to justify the presumption of human rationality psychologically (see Zafirovski 2001).[5] The early sociological critics of economic thinking often had (and many still have) as their main target the postulate of Homo oeconomicus understood in more general terms than the theoretical construct of an rational individual actor aiming at optimizing his or her utilities. In the early critical appraisals, it was often associated with hedonistic ethical principles, the doctrine of the calculus of pleasure and pain á la Bentham, and criticized as such. Classical sociologists distanced themselves from it also because of its close affinity to the postulates typical of the political philosophy of individualism, according to which society consisted of atomistic and egoistic individuals who act purely in their own interests. In addition, the postulate of the Homo economicus was often associated with the predominance of instrumental rationality as the guiding principle of human action in general, not only in economy: Human beings would, whenever possible, tend to rationally choose the best means to reach any goal they were after. Weber was a most ardent opponent of the ethical postulate of

the utilitarians, according to which human action is predominantly guided by the rational hedonistic calculus of pleasure and pain.

All these aspects undoubtedly contributed to Weber's critiques of Marginalism. Many of them were not unique to him but quite often heard among other Continental social philosophers and historians who associated all or some of these aspects with the new spirit of British commercialism and anti-etatism—a mode of economic and political thinking referred to in Germany as 'Manchestertum.' At the same time, Weber's own thinking also differed in some important respects from these typical German or Continental 'prejudices.' He thought that Germany could not avoid becoming as capitalistic as Britain and the rest of the world. He also thought that the basic assumptions of economic theory could be freed from older socio-philosophical or moral connotations, and consequently, economic theory of modern capitalism did not rest on them.

What was, then, the relation of Weber's sociology, and more precisely economic sociology, to economics after all? In clarifying this question, it is useful to compare his position to Joseph Schumpeter's, whose idea of the roles of economics, history, and sociology resembled those of Menger's. Weber seemed to agree with Joseph Schumpeter on many points. Schumpeter wrote the *Economic Doctrine and Method* (1954a), the first version of his famous *History of Economic Thought* (1954b) for the first volume of the handbook series, Grundriss der Sozialökonomik (1914) that Weber edited. According to Schumpeter, both economic history and economic theory belong to economics. Economics was the mother science but sociology had a quite essential side role to play. Sociology offered a helping hand whenever the concrete economic phenomenon did not correspond to the theoretical construct. This was often the case when factors external to economy, such as power, violence, legislation, and the like, interfered in economic action. Other kinds of economic systems, not based on economic exchange and the general use of money, demanded yet another approach. Schumpeter relied mostly on economic statistics and economic history to assist economics pure. He seemed to share Weber's interpretation of the relationship of theoretical economics and economic history in that both had their own area of competence, which in the case of economic theory was the 'pure' market economy. However, it is possible and often useful to compare other kinds of non-rational economies, such as traditional home economy or an economic monopoly, with this pure type in order to explain how they deviate from it.

What must have appealed to Weber in the Austrian Marginalism was that, according to it, the abstract economic theory could not provide any explanation of the determination of the real market prices. Marginalists were interested in empirical price formation too—and not only in the theoretical deduction of prices—but thought that it is best analyzed in terms of a bargaining process, involving the interlocking expectations of the bargaining partners (Parsons 2014: 10). Weber shared their opinion that prices are formed in a bidding process based on subjective evaluations of the partners, which culminated in price

struggles. In Weber's opinion, the relative power positions of the actors decided the result in the last instance (Parsons 2014: 48–49).

Many of Weber's comments and observations are quite polemical, short observations or notes. He did not develop them more systematically to explain, for instance, how the mechanism of the struggle for power affected 'empirical' prices under various market conditions (see Bader et al. 1976). He referred approvingly to Georg Knapp's legal, or state theory, of money but did not comment or develop this idea or ponder explicitly on how it related to the economists' standard conception of money as a medium of exchange (Weber 1968a:78–79).

If Weber's interpretation of the area and limits of the competence of economics resembled Schumpeter's, his own understanding of the economic theory, or theoretical economics, was close to Wieser's (1914; cf. Schluchter 2009). Following Wieser, Weber separated 'pure' prices, which in his mind could be deduced from economic theory, from 'real' prices, which resulted from power struggles. He claimed most emphatically that in explaining prices, power struggles should be taken into account: 'money prices are the product of conflicts of interest and a compromise, they thus result from power constellations' (Weber 1968a: 108). Even though he expressed himself in stronger terms, this did not differ all that much from the standard understanding among Austrian Marginalists, who also emphasized the importance of bargaining and price struggles in economic reality (Parsons 2014: 48–49). In line with this, the Austrian Marginalists analyzed individual economic action or interaction as an ongoing social process that obviously appealed to Weber. In other words, both Wieser and Weber agreed that, when studying the formation of prices, economic analysis should be complemented with historical and sociological factors. This stance could be understood in two different ways: Either prices differ from theoretical, pure, or equilibrium prices only under some exceptional conditions (e.g., under 'imperfect' competition) when power relations interfere; or power struggle and the power position of producers should always be taken into account, even under the conditions of perfect competition. Weber stood for the second, more demanding position. Analyzing prices, he declared that the importance of power was not restricted to the economic markets alone, but the struggle for survival was in fact the general motor behind human history.

Another important reservation that Weber had concerning the area of competence of marginal utility was that it concerned only the activity of consumers or home economies. The economic activity of enterprises to achieve interest or profits cannot be understood with the help of the same principle since, obviously, enterprises are not motivated by the satisfaction of any human needs that could be expressed and measured as utilities. The calculations of the entrepreneur are not oriented to the marginal utility, but to profitability (Weber 1968a: 92). This critical question was not Weber's originally but posed by the first-generation Marginalists and was part of their internal discussions.[6] Weber had, however yet another, more demanding reservation. In his mind, consumers

were not as autonomous as presumed by the economic theory, since entrepreneurs can often affect their likings and choices. Their wants did not stay stable but were undergoing continuous change. As Weber formulated it,

> it goes without saying that in terms of *economic* theory the direction in which goods can be profitably produced by profit-making enterprises is determined by the marginal utilities for the last consumers in conjunction with the latter's incomes. But from a *sociological* point of view it should not be forgotten that, to a large extent, in a capitalistic economy (a) new wants are created and others allowed to disappear and (b) capitalistic enterprises, through their aggressive advertising policies, exercise an important influence on the demand functions of consumers. Indeed these are essential traits of a capitalist economy (Weber 1968a: 99–100).

In addition to the question of the preference and the price formation, Weber had several other reservations concerning economic thinking. He did not approve of the explanation of the origins of interest paid on money with the 'principle of abstaining.' He thought that an interest is not a compensation for the delayed satisfaction of needs or pleasures. Economic actors take risks in orienting their actions towards the future. The future is always unpredictable and therefore they can never know the outcome of their choices. Recognizing the principally uncertain nature of the future, and in contrast to later Marginalists, Weber thought that imperfect information was the normal case and not just an exception.

The historical validity of theoretical economics

Weber's (arguably most famous) study on the historical and ideational origins of modern capitalist rational orientation of action, *The Protestant Ethic and the Spirit of Modern Capitalism* (2010 [1904–05]), claimed that the early Protestants or the Calvinist Puritans did not work and invest money in economy in order to enjoy its fruits for any personal pleasure. In his understanding, entirely different motives guided their actions, namely the aspiration to save their souls or receive some kind of assurance that they were among those that God had chosen to eternal life. They did not waste money on consumption but—completely irrationally from the point of view of their own pleasure and well-being—invested it in their enterprises or loaned their capital to other entrepreneurs for interest. They interpreted economic success as a sign of being among God's chosen ones. Early capitalists, just like their later descendants, were profit seekers who were interested in the future of their souls and not pleasure-seeking hedonists.

If *The Protestant Ethic and the Spirit of Modern Capitalism* and his other related studies of world religions had remained Weber's only major contributions to

the study of economy we could bypass him as yet another German economic historian. This interpretation is also supported by his posthumous work on economic history, based on his lectures in Munich, *General Economic History* (Weber 1927[1923]). The German historical school thought that individual historical events were always by their nature unique and never repeated themselves in history in the same way. Historical change was always a result of a rich and many-faceted composition of factors differing from one case to another. Therefore, history and other studies of culture operated with the concept of the historical individual instead of general concepts. For instance, the French Revolution was a unique historical event caused by the coincidence of a great multitude of smaller and bigger factors and, therefore, it could neither be subsumed under any generalized concepts, such as revolution in general, nor explained with the help of any universal laws. Politically this position was related to the belief, common among German historians in Weber's time, that Germany would not develop its modern market economy to be relatively autonomous from the state or the government as Britain had done. German had its 'Sonderweg,' its specific way of its own.

In some of his works, Weber seemed to think that Marginalism, or abstract economics, as it was referred to in Germany, presented a valid theory of economic action specific to and typical of modern capitalism alone.[7] He even seemed to think that the developed market economy, with its generalized exchange of commodities and money, gradually came to resemble its abstract, theoretical model as explicated in Marginalism. Economics did not recognize and acknowledge its own historical conditions and restrictions. In Weber's opinion, the Marginalist economics was not a universal theory of economic action; neither was the rationally acting Homo oeconomicus a universal human being or the incarnation of the human species, but at best it was a historically specific phenomenon. This particular postulate was valid, as an approximation, only in modern capitalism, which predominantly comprised rational, individual economic actors who had come into being in a historical process leading from other, more traditional forms of economic organizations. Furthermore, acting rationally in the economic sense was possible only under the conditions of a generalized monetary exchange of commodities in the market. Thus, it was the specific task of sociology—historical sociology, if you like—to point out this fact to economists, thus narrowing their universalistic aspirations. Weber formulated this limitation concretely in his *Economy and Society*. The explanation presented in Marginalism about the reasons that people abstain from consumption and pleasure in favor of future interest is only partially true:

> Economic theory approaches this problem of the relative marginal utilities of goods under present and under future control. So far so good. But the sociologist would then like to know in what human actions this supposed relation is reflected in such a manner that the actors can take the consequences of this differential valuation (of present and future

> goods), in the form of an 'interest rate,' as a criterion for their own operations. For it is by no means obvious that this should happen at all times and places. It does indeed happen, as we know, in profit-making economic units. But here the primary cause is the economic power distribution (Machtlage) between profit-making enterprises and budgetary units (households), both those consuming the goods offered and those offering certain means of production (mainly labor). … Economic theory …. might then very well say that this exploitation of the power distribution (which itself is a consequence of the institution of private property in goods and the means of production) permits it only to this particular class of economic actors to conduct their operations in accordance with the 'interest' criterion (Weber 1968a: 97–98).

Weber is here almost paraphrasing Marx's *Capital* by arguing that it is first the power position granted by private ownership of the means of production that makes the collection of interest and accumulation of profits and capital possible at all. Standard economics does not, as a rule, pay attention to this important fact. According to Weber, the theory of Marginal utility analyzes human action, for certain purposes of thinking, as if it proceeded from a to z under the control of calculation typically exercised by a merchant (Weber 1968a: 394).

At one point, Weber went so far as to claim that the economic reality of modern capitalism approaches more and more the abstract model of Marginalism:

> The historical peculiarity of the capitalist epoch, and thereby also the significance of marginal utility theory … for the understanding of this epoch rests on the circumstances that—while the economic history of some epochs of the past has not without reason been designated as 'history of non-economic conditions'—under today's conditions of existence the approximation of reality to the theoretical propositions (of rationality) (Weber 1975 [1908]: 33).

Even though one could read this paragraph almost as a prophecy of the victorious process of rationalization inherent in modern capitalism, it is safer to interpret it in line with Weber's general methodological insight about the relationship between theoretical and general concepts and concrete reality in human science.[8] According to him, there is hardly ever a perfect match between them. This by no means indicates that we could do completely without any general concepts like the typical ones in Marginalism. Such concepts are needed simply to create order out of a reality that is chaotic and incomprehensible, or can be comprehended in multiple ways depending on our 'knowledge interest' (cf. Habermas 1972). Theoretical concepts pick out of the multifaceted concrete reality what is important or relevant to us as cultural beings at the moment. Reality must always be interpreted or constructed. In this process, general concepts are not only useful but quite indispensable. This explains why

Weber, in his economic-historical writings, used both systematically general concepts and developed a conceptual apparatus of his own in order to construe a theoretical framework to analyze human history. This is accomplished predominantly by comparing historical cases, identifying their similarities and differences with the help of the conceptual apparatus.

Weber's own sociological concepts of economy

The very starting point of Weber's 'understanding sociology' was the individual actor whose action was meaningful ('sinnhaftes Handeln'). From economics he adopted the concept of calculative rationality, which he believed characterized modern economic activity.[9] In this way, he integrated some of the concepts of theoretical economics into his own system of sociological categories to better fit his broader framework of sociology. In a way the calculating, rational Homo oeconomicus had a kind of a privileged position also in Weber's thinking. He tended to relate or contrast other types of irrational or alternative rational actions to instrumental rationality. As an ideal typical concept, Weber's formal rationality was quite specific. One can say that, in this type and in this type only, both the subjective and objective meaning of action coincided and appeared, both to the acting subject and to his or her external observer.

In his system of sociological categories of economy, he distinguished different types of action depending on the degree of calculation they allowed. The basic division is between money calculation and calculation in kind. The last one faced obvious problems from the point of view of commensuration and, hence, calculation: how to compare and qualitatively measure different objects. This was obviously totally impossible if the value standards of their evaluation differed from one person and case to another. It was monetary calculation that made explicit and unequivocal comparison possible. Weber further distinguished money accounting from its subtype, capital accounting. The most important and original concept of his economic sociology is formal rationality and its counterpart, substantive rationality. The definition of formal rationality is simply an action that allows and is based on calculation—its only characteristic is calculation and nothing else. As Weber defined it, formal rationality depends only on 'the degree of the technically possible and actually applied quantitative calculation' (Weber1968a: 85; see also Norkus 2010: 60). In his understanding, the great benefit of this concept is that it is unambiguous. Therefore, it perfectly fulfills the criteria that he set to his ideal types. They should be as unambiguously defined as possible even at the cost of their increasing distance from reality. It appears that he thought that there cannot be any dispute or problems of interpretation concerning the purpose and results of money accounting or its meaning, contrary to human activity in general, because money accounting deals only with distinctions in quantitative units, of more or less of the same, which should be self-evident to everyone (Gronow

1979). As he further claimed, 'from a purely technical point of view, money is the most "perfect" means of economic calculation.' In addition, it is formally the most rational means of economic activity (Weber 1968a: 86). Thus, money accounting is not only the most typical example of formal rational action but also its perfect or 'pure' type.

Capital accounting is similarly unambiguous as a concept. It is a special case of money accounting. It is simply defined as the budgetary accounting of a firm (Weber 1968a: 91). The means and ends, input and output, of capital accounting typical of a capitalist firm are simply bigger or smaller quantities of money, or numbers in the columns of debits and credits in bookkeeping. In making his conceptual distinction between these two kinds of accounting, Weber paid homage to the understanding common in the Marginal economics of his time according to which consumers', or households', economic orientation differs principally from a firm's. According to him, consumers orient their actions in the capitalist market according to money accounting, whereas firms or enterprises orient themselves to capital accounting. He thought that the 'rational' accounting—or the system of double bookkeeping with its debits and credits—of the modern enterprise was one of the main landmarks of modern Western capitalism that distinguished it from all other historical economic formations. In this Weber was by no means alone. His contemporary and challenger in explaining the origins of modern capitalism, Werner Sombart (1902) thought the role of the double bookkeeping to be decisive too. The distinction of the enterprise from home economy as well as the capitalist organization of formally free labor were, however, equally important steps in the development of modern capitalism.

An economic actor who orients his or her actions according to the principle of capital accounting can evaluate the effectiveness of such actions unambiguously by comparing the inputs with outputs in purely quantitative, monetary terms. In order to be able to compare things and services in quantities of money, they must obviously have an objective value or price. The price of any singular object can of course vary, but in relation to an individual actor, it is at any one moment given and easily comparable. It can be bought or sold for that particular price and, in a modern capitalist economy, one cannot usually bargain about it. One does not usually have to or cannot negotiate or dispute about it. It is not in the power of the individual actors to change it.

Weber did not present any systematic theory of the determination of the economic value or price of goods or services that could have competed with the standard economic theory and explained how and on what grounds such objective market prices are formed. Neither did he analyze systematically the social conditions of the use of money. He defined money quite simply, and not originally, as a contractual means of payment that functions as a medium of exchange: '"Money" we call a chartal means of payment which is also a means of exchange' (Weber 1968a: 76). Just as Simmel had divided his *Philosophy of Money* into an analytic and a synthetic part, Weber divided the question of

money into a material or substantive and a formal theory, respectively. However, his interpretation differed slightly from Simmel's: The substantive theory of money dealt with the quantitative value of money and its historical changes. The task of the formal theory was, in its turn, to explain and analyze the social conditions of the use of money, a task that obviously demanded a sociological and historical supplement to economic theory. Weber did not discuss at any length either of these questions and analyzed mainly the social and cultural consequences of the use of money. In doing so, he regarded economy from the point of view of the individual economic actor who, as a rule, takes both money and prices as given. Consumers, under normal conditions, know how to use money without having any idea what really explains its quite extraordinary characteristics or makes its many functions possible. Even specialists dispute about them. This proves clearly that modern men have no superior knowledge about the social conditions of their own life compared to the 'wilds.' What separates them decisively from their predecessors is the belief that the conditions of their ordinary life, such as the tramway, medicine, law courts, or money, are human products that are open to human knowledge and control as well as operate in a rational manner according to some established rules (Weber 1968b: 473).

Weber did not leave this question about the nature of money quite so easily; he listed several characteristics or consequences of money accounting:

1. Monetary accounting evaluates all alternatives according to their market situation;
2. Calculating and comparing of costs and benefits is typical of money accounting;
3. In money accounting it is always possible to evaluate all products and other economic conditions at the disposal of each economic unit both at the beginning and at the end of a time period;
4. With the help of money accounting it is possible to evaluate how much money a person would have at his or her disposal if he or she realized all the economic assets at his or her disposal (Weber 1968a: 86–87).

It is easy to see that all the above specifications deal with the uses of money, and they explain mainly its practical functions. Furthermore, they concern money mostly as a means of accounting, which in Weber's—just as in Knapp's (1918 [1905])—understanding was obviously crucial in the understanding of money as it is. In explicating the conditions of monetary accounting, Weber referred simply to the principle of marginal utility:

5. Money accounting presumes 'the orientation of consumption to these data by the utilization of the money available (on the basis of point 4) during the accounting period for the acquisition of the requisite utilities in accordance with the principle of marginal utility' (Weber 1968a: 87).

The calculative rationality, evident in monetary and capital accounting, is according to Weber the primary type of rationality from the technical or formal point of view only. For instance, the development of the productivity of a firm can be measured unequivocally only in monetary prices. Use values or the subjective utilities of products of various kinds are not directly commensurate. We face the same problem of commensuration when comparing the utility of two products to one and the same person and that of one product to two different persons. Consequently, in Weber's mind, natural economy—or economy in kind—is never formally rational and, even more important, ineffective (Weber 1968a: 102–104). As he added, to be more precise, it is ineffective only in the sense of formal rationality. We can measure and compare economic action effectively from the perspective of formal rationality, but there can very well be other arguably more ambiguous but as important, as he would call them, substantive criteria of evaluating effectiveness, such as the satisfaction of needs to which formal rationality is, at best, indirectly related.

Weber divided economic action not only into two opposite and mutually exclusive ideal types—formal, calculative rationality and substantive or material rationality—but also considered their mutual relations. In acting according to substantive rationality, one orients one's actions according to some concrete goals like the satisfaction of needs or, alternatively, according to some ethical values (e.g. fairness or equality), whatever they might be in any one case. These intrinsic values cannot be reduced to quantitative terms that would make them comparable and commensurate. The parallel ideal type to substantive rationality is value rationality in Weber's list of the general sociological ideal types of action. It aims at the realization of a substantive value—whatever that might be in any case—at all costs and disregarding other possible consequences of the action. In this case, the calculation of the costs is totally irrelevant since the attainment of its goal has an absolute value, or an ethical or aesthetic value in itself. Formal rationality, or means-ends-rationality, is not quite similar to instrumental rationality, the counterpart to value rationality, since the peculiarity of formal rationality, as compared to the more general concept of instrumental rationality, is calculation and accounting. This means that the only difference between the means and ends of action is a quantitative one and the end results differ only in quantities: more or less money.

What makes Weber's division of economic action into these two types interesting, and at the same time problematic, is that formal rationality and substantive rationality seem to exclude each other. He went so far as to characterize the contradiction or anomaly between the formal and substantive rationality as the great problem of our times. Modern capitalist economy, in his understanding the utmost case of economic effectiveness in terms of formal, calculative rationality, is by no means rational from the point of any kind of substantive rationality, the satisfaction of human needs or the achievement of some ethical values or goals. Even worse, formal rationality is not only totally irrelevant in regard to all ethical goals or material needs, but tends to reject them since

it can take into account only those means and goals that can be counted and compared in money. On the other hand, the commensuration of other, non-monetary means and ends is not only almost impossible but it does not guarantee economic efficiency either. This was the main reason that Weber expressed strong doubts about socialism as well as the goals of other alternative social, ethically oriented movements of his times, from lovers of nature to vegetarianism. He believed firmly that, sooner or later, such ethically or aesthetically inspired movements and their alternative policies would face the challenges of effective mass production and administration which, out of necessity, will interfere, sidestep and even prevent the realization of their ideal—qualitative and incomparable—goals and ethical imperatives (Mommsen 1974: 172–176).

Formal rationality and the importance of accounting

Despite the closeness of Weber's position to the Austrian Marginalists, his approach to modern capitalist economy was quite different from theirs. In his article on the objectivity of the social science he argued programmatically that we should not study economy only from the point of view of the problem of scarcity, as economists did, but we should pay attention to its general cultural meaning:

> The cultural significance of a phenomenon, e.g., the significance of exchange in a money economy, can be the fact that it exists on a mass scale as a fundamental component of our culture. The analysis of the general aspects of exchange and the technique of the market is a—highly—important and indispensable—*preliminary task*. For not only does this type of analysis leave unanswered the question as to how exchange historically acquired the fundamental significance in the Modern World; but above all else, the fact with which we are primarily concerned, namely the cultural significance of the money-economy, is not derivable from any law (Weber 1949 [1904]: 77).

Weber states further that the choice of the economic concepts we operate with is by no means without its prerequisites and consequences:

> The question of what should be the object of universal conceptualization cannot be 'presuppositionlessly' but only with reference to the significance of certain segments of that infinite multiplicity which we call 'commerce' have for future (Weber 1949 [1904]: 78).

Parallel to editing and writing his own contribution to *The Ground Plan of Social Economics*, Weber continued his comparative studies of the world religions that focused on the peculiarities of the Western process of rationalization and the role of Western culture compared to other cultures of the world. This

major question of the nature and future of Western civilization had a decisive impact on the development of Weber's systematic economic sociology as well (Schluchter 2009: 63). He shared with Heinrich Rickert and other Neokantians the methodological conception that cultural values direct our concept formation. However, these values are not subjective but general and objective cultural values. They determine what are, to us, the members of Western culture, important and relevant questions at each time and, consequently, what our main objects of study should be. By directing our concept formation, these cultural values shape the chaotic and uncomprehensive reality. Therefore, in order to be able to understand the cultural meaning of modern capitalism, we have to conceptualize it differently from ordinary economics, which pays attention only to the questions of scarcity and utility. Instead, formal, calculating rational action as the essence of modern capitalist economy—which presumes the existence of objective prices and money—offers the key to understanding the cultural meaning of modern capitalism. In this perspective, the shortcomings of the Marginalists' price theory or, for that matter, Knapp's state theory of money were of minor importance in solving Weber's wider problem of the general cultural meaning of Western capitalism. Weber's insight into monetary calculation and formal rationality had penetrated both modern capitalism and Marginalist thinking, making them both an essential part of the reality of the modern economic actors.

Weber's *Ground Plan of Social Economics* is unquestionably one of the most ambitious projects in social sciences to this day. As we know, he did not manage to finish it. One can wonder whether many major questions in his sociology remained unsolved not only because his untimely death made an end to this demanding enterprise—to my knowledge, no one else has ever seriously taken over the burden of trying to finalize them. It looks like Weber set himself to a task that was simply unsolvable from his own methodological and theoretical presumptions. What remains alive from his heritage, in addition to his exemplary confrontation with economics, is the question of the social and cultural consequences of the Western process of rationalization, the central cultural meaning of modern capitalism. One can express certain doubts as to whether we have made all that many theoretical advances in this respect since his days (cf. e.g., Ritzer 1996, 1998).

From the more narrow point of view of the sociology of economy, Weber's lasting contribution is his system of the sociological categories of economic action, calculating and numerical accounting as the central features of economic action in modern capitalist market economies. Since he was interested programmatically in the cultural meaning as well as the social preconditions of economic action, he paid more attention to the peculiar, calculative disposition both presumed and conditioned by modern capitalism than to the social conditions and mechanisms through which the economic objects express their value in objective prices first making their commensuration, calculation, and prices possible. The fact that Weber did not have any value theory of his own and

is of little help in understanding the 'secret' of money restricts the value of his economic sociology in understanding the functioning of the basic institutions of modern capitalism. At the same time, both his numerous historical studies of a great variety of economic phenomena and many of his theoretical and methodological deliberations remain unsurpassed even today.

Georg Simmel was the only classical sociologist who developed his own theory of money, and he devoted a whole thick volume to it (Simmel 1989 [1900]), arguably the best known of his numerous sociological treatises. To Simmel, money was the pure medium of social interaction and, as such, an ideal example for the purposes of his study of social relations in general. Simmel's theory of value, on which his theory of money rested, can be characterized as a combination of the subjective and objective theories of value. To him, value is always relational and not any natural substance of the objects of exchange. The value of any object is a combination of its desirability and the difficulty of achieving it or getting access to it. In this sense, it depends on the distance between the object and the aspiring subject.[10] What makes economic goods scarce is the amount of sacrifice that their acquisition requires. Without desire, scarce goods would not be scarce at all, nor would they have any economic value (Cantó Milà 2005: 169). To Simmel, the distance between us and the objects makes them desirable and valuable. When the objects are in an immediate or direct relation to us, as if an integral part of ourselves, they do not have any value to us (cf. the air we breathe without giving it any further thought or effort, at least as long as it is pure and freely available). Valuing objects always presumes that we desire the objects and that there is a distance between us and the desired objects that needs to be overcome. The talk about distance should naturally be taken metaphorically and not as a concrete fact. Thus, the combination of desire and distance determine the subjective value of any one commodity, or external object in general, to us. On the other hand, one can claim that the problem of general scarcity emerges first with the market economy and its monetary relations, because money, and only money, has the potential of satisfying any need, including the ones which we are not even aware of. The desire for money is what motivates the economic actors in a modern economy. Therefore, there are no natural limits to the need for money and there could always be more of it. After all, the only distinction that money recognizes is a quantitative one.

Simmel is not explicit regarding how his value theory relates to or is distinct from others'. Simmel's value-analysis largely lacks the deduction of the objective values out of subjective, or individual values or preferences: How do the values of commodities become socially shared and objectified? Both the theory of marginal utilities and the labor theory of value offered a solution to this question in their own ways, but Simmel neither shared them nor confronted his own value theory directly with them even if his concept of value comes in some respects quite close to the Austrian Marginalists', Carl Menger's in particular. It is, however, obvious that he does not adopt the idea of marginal utilities central to the science of economics. His concept of desire does not translate

into utilities; it has almost metaphysical dimensions. In addition, the distance, which constitutes the relation of value between us and the external objects, does not translate directly into any calculation of the effort, either in terms of labor time or the costs of production.

Simmel's analysis of economic value is just a special case of a general theory of value, but at the same time, economic exchange and value becomes a model to the process of valuation of the external world in general. Only in economic exchange does the value become both objectified and generalized as the media of money. The results of his analyses of money have relevance far outside the narrow domain of economy. To Simmel, as with Marx before him, money and monetary relations were the primary example of the objectified social relations and formations. The objectification of human culture threatened the modern man. In the long run, and obviously with increasing speed in capitalism, the objective, or objectified, culture would become overwhelming in relation to the inner subjective culture of human beings.

Economy and society once again—35 years later

The second heroic effort to solve the question of the relation between economy and society, and economics and sociology, was published some 35 years after Weber's death. It was co-authored by Talcott Parsons and Neil Smelser (1956) and had the same title that Marianne Weber had given to her husband's posthumously published collection of manuscripts, *Economy and Society*. Despite many quite drastic differences between Weber's understanding of sociology and society and Parsons and Smelser's structural-functionalist systems theory, these works stay firmly on common ground as far as the confrontation of sociology with economics, which had established itself firmly as an academic discipline in the USA in the 1950s, is concerned. Both considered Marginalism—in Parsons' and Smelser's case Neoclassical economics—to be in many ways a valid theory of economic action if only it knew its own limitations and recognized its historical and social conditions of validity. For this, it needed the help of sociology. By integrating economy into their wider concepts of society and sociological thinking, Weber, as well as Parsons and Smelser, came to develop an approach of economic analysis of their own into which the standard economic theory hardly fitted without serious modifications. In Weber's case, this was determined by the role modern capitalism played in the unique Western process of rationalization; in Parsons and Smelser's case, this was determined by the structural-functional general systems theory of society and particularly its core idea, the functional differentiation of society into several subsystems with their specific functions. Each of its basic institutions or subsystems fulfilled a separate function in the whole system. This idea was condensed in Parsons's famous AGIL scheme (Parsons & Smelser 1956: 19; Parsons 1951).

According to Parsons and Smelser, the science of economics is an abstract theoretical science that is able to solve empirical problems, but only under strictly specified conditions. In the beginning of their impressive work, the authors formulated their task as follows:

> On the *theoretical* level economists agree fairly well that economic theory is an abstract theoretical scheme which by itself is adequate to solve some empirical problems, but only under carefully defined conditions. Economists define these conditions as postulates and parameters, and spell out limitations to be observed in their application. For certain kinds of analysis, however, economists disagree among themselves as to the appropriate assumptions and parameters. We hope, first, to show that such disagreements arise from a selective use by different economists of concepts on the theoretical borderline of economics. More importantly, we hope to demonstrate that these postulates and parameters possess more than economic significance; they articulate with other parts of the theory of social systems in theoretically specific ways. If this can be done, the problems concerning the limitations of economic theory—problems, which derive from its abstract character—can be given more specific solutions than is now possible (Parsons & Smelser 1956: 1–2).

'Empirically' human action is always the result of both economic and non-economic factors and therefore an economist's scope is necessarily limited. Parsons and Smelser thus seem to follow Weber's and other classics' principal position: modern, neoclassical economics is fine in general if only it better understood its own restrictions and limitations. What is more, many of its internal disputes could be solved by paying more attention to the borderlines of the system of economy and how other social systems penetrate into it.

Parsons and Smelser's *Economy and Society* is an impressive and systematic commentary on all kinds of economic theories, problems and questions. They were obviously very well read in the economics of their times, just as Weber had been in his times (cf. also Parsons 1949). At the same time, the study rested heavily on Parsons's structural-functional systems theory, which Parsons (in *The Social System,* 1951) had developed shortly before and condensed in the AGIL formula and the idea of the differentiation of the social system into four subsystems, one of which was the economy.

According to the AGIL formula, economy is the subsystem in the social system that is mainly concerned with adaptation (A) and resource achievement. The other subsystems take care of goal-attainment (G; political institutions), integration (I; religion and law) and latency or pattern maintenance (L; family). Following the structural-functional general theory, the economic subsystem adapts the social system to the external surroundings and takes care of the necessary resources for the society as a whole as well as for all its subsystems.

It is essential to Parsons's systems theory that the economic system—just like all other subsystems—has also to fulfill all the same four basic functions within itself. Consequently, it is further divided into four subsystems following the AGIL scheme, each fulfilling their own functions or tasks. Thus, economy has also its own integrative mechanisms, which guarantee and keep up its value orientation, as well as mechanisms to guarantee that the various economic roles will find adequately motivated persons to fulfill their tasks. Analyzing economic institutions with the help of the AGIL scheme has obvious relevance to the theory of economic organizations.

It goes without saying that Parsons's systems theory offers a totally different understanding of economic institutions than the standard one in the neoclassical economics. All subsystems, as well as the whole social system, aim at keeping up a balance with their surroundings. Despite some obvious resemblances, this is a different view of the role of economy from the one generally presented in neoclassical economics, in which economy aims at an equilibrium optimizing the use of scarce resources. Parsons and Smelser do not, however, draw any principal consequences from this fact concerning the validity of economic thinking. Instead, they mainly show how the subsystem of economy is, at the 'borderlines of economy,' related through functional relations of dependence to each of the other subsystems of society. Similarly, all the other subsystems are dependent on economy for their resources. By analyzing the functional relations between the subsystems, the authors' purpose is to show concretely in what kind of questions sociology can extend a helping hand to economics.

The two authors do so by identifying and describing the modes of double interchange between the economy and each of the other three social subsystems. The polity (G) makes decisions in order to control capital funds and encourage productivity in private enterprises. The economy in its turn has a right to intervene in political decisions to supply liquid resources through creation of capital funds and through the control of productivity (Parsons & Smelser 1956: 77). The integrative subsystem (I) offers integrative services to the economy and presents demands for new product combinations. The economy provides part of its profits to the integrative subsystem and makes decisions to innovate new output combinations (Parsons & Smelser 1956: 79). Finally, the pattern maintenance subsystem (L) makes decisions to accept employment and spend money in order to buy goods and services. The economy in its turn pays household members wages and sells them consumer goods and services. Following the terminology that became common first after the publication of their work, one could say that Parsons and Smelser describe the ways through which economy is embedded in other social systems, and vice versa, how these other systems are embedded in economy, most of all through their need of economic resources. To put it in a slightly different way, economy is not a completely independent system of its own but penetrates other systems as well as is penetrated by them (Beckert 2012: 258).

At first sight, many of these relations of interchange between the subsystems look self-evident and almost commonsensical, for instance, the relations between households and economic enterprises; others are more innovative, such as the idea that the integrative subsystem is decisive in creating a demand for new product combinations. This idea might very well have originated from Schumpeter's famous distinction between technical discoveries and innovations, according to which technical discoveries produced by research departments of economic enterprises become marketable innovations first after they get integrated into new social practices that they are often active in promoting. At the same time, Parsons and Smelser's classical work can very well be read as a very extensive list of the numerous ways in which the economic subsystem is embedded in the three other social subsystems and vice versa. In this respect, as well as in being extremely well informed about the state of neoclassical economy of its times, it is still today unsurpassed (cf. for instance Granovetter 2016). Parson's structural-functional systems theory was intended as a general conceptual frame of reference, of the society, but in emphasizing the differentiation of the social system into separate subsystems that all have specific functions of their own, it can also be interpreted in the spirit of the theory of modernization.

One of the lasting contributions of Parsons's systems theory was his concept of the four symbolically generalized media, money, power, influence, and status, each of which coordinates action in the different subsystems and mediates the interchange between them. By characterizing them as symbolically generalized media, Parsons referred to the fact that, like money, they, on the one hand, have value only as representations of something else and, on the other hand, they have general validity. This is clear in the case of money that has 'command' over all kinds of possible objects of exchange, not depending on who and in what position the partners of exchange might be or what the objects in question might be. Money, just as power, is omnipotent. The possession of money makes the satisfaction of all kinds of needs or the realization of all kinds of goals possible without having to specify them in advance. However, in writing their *Economy and Society,* Parsons and Smelser did not make full use of Parsons' concept of money as a generalized media. They did not dedicate all that much space and effort to analyzing it. However, the following quote, in which Parsons and Smelser (1956: 141) compare the 'omnipotence' of both money and power as generalized media, is interesting: 'It becomes possible to exchange not only goods and services, but also generalized power to command whatever particular factors may be required.' Power as a generalized media is in many ways similar to money by offering its owner the freedom to command over everything just as money gives access to all commodities (Orléan 2014). Or as Beckert (2016: 209) formulated it even more pointedly: money 'is the most perfect material representation of an unbound imagined future, in that it withstands the disillusionment of appropriation. The only threat to the imaginative force of money is its devaluation.' As a matter of fact, Parsons's main

contribution in this respect might well be that he taught us more about the nature of power and status by comparing them with money.

In their work on economic sociology, Parsons and Smelser go through dozens of very illuminating cases to show how sociology can help economics to solve its open problems by analyzing the borderlines between economy and the other subsystems. The theory of business cycles offers a good example. At the time of writing their book, three mathematical models, Samuelsson's, Hicks's and Kalecki's, competed in explaining business cycles. They all shared the basic assumption, according to which increasing demand leads to increasing investments and finally to economic growth, and vice versa—decreasing demand leads to economic recession. The relation between demand, investments, and growth, however, is not a linear one but takes place with a certain delay or can also accelerate. Therefore, each of the three models had its own coefficients of acceleration and lag. These coefficients are the main difference between them. They are a good example of the ad hoc parameters and assumptions which economic theories are full of. As Parsons and Smelser claimed, they are arbitrary and their empirical testing is not easy, or hardly possible at all, since it is impossible to find enough empirical and historical cases that are in other respects close enough to each other in order to be really comparable. This is exactly the kind of a situation in which sociology can offer its helping hand to economics, not only with empirical results of research but also, and more importantly, with theoretical reasoning, by pointing out such factors in other social subsystems that can either slow down the demand and investments or accelerate them under various circumstances.

Housing and mortgage markets offer a good, real-life example, which can be interpreted in Parsons and Smelser's spirit. Homeowners often show great unwillingness to sell their houses or apartments in order to pay their loans, even when it would be economically most rational, typically in the case of decreasing household income due to unemployment and/or increasing rent. The reasons are simple to understand once we take into account that the economic actors on the housing markets are not pure capital owners and investors but households and families, often with children, who are in many ways 'embedded' in the social systems of social integration and pattern maintenance. They more often than not do not act economically rationally and sell their houses or apartments whenever they have difficulties in paying their loans. They are hardly ever fully informed about the cyclical fluctuations in interest rates and housing prices, which remain a secret even to the experts. In addition, they might often have very good reasons not to move and prefer to stay in the old apartment, in order to keep up their and their family's social relations and status, as well as not to disrupt their children's school attendance and friendship ties. If the rent continues rising and their income decreases at the same time, for instance due to unemployment, they will end up forced to sell, but this often takes place too late from the point of view of pure economic (formal) rationality. Since all or most of the other actors on the housing market will follow their example, the

housing prices will collapse abruptly and totally when they are finally forced to sell, and as a consequence the homeowners are all left not only without any housing but also with unpaid loans (Poppe 2003). In this case, the fact that the economic actors are households and families, and not predominantly investors of capital, or abstract economic actors, means that the housing price cycle is delayed, and when it finally hits it will hit quite abruptly and hard, often with quite devastating consequences to all those private individuals involved.[11]

In their *Economy and Society,* Parsons and Smelser followed Weber's example, directly confronting the economists of their times. Unlike Weber, Parsons and Smelser did not offer a comprehensive system of sociological concepts of modern market economy. (Admittedly, Weber's remained unfinished too.) Instead, Parsons and Smelser willingly offered their helping hand to the economists; however, the economists showed hardly any interest at all in their offer. The confrontation did not lead to any real dialogue between sociology and economics but resulted instead in a practical truce in academia.[12] Sociologists, political scientists, and economists continued to take care of their own turf; sociology studied values, norms, and the institutions of social integration and pattern maintenance, including religion, family, and school; political scientists the system of decision making and politics; and economists markets, prices, and the effective use—in the sense of formal rationality—of economic resources. Sociologists continued to express from time to time, more or less actively, their critical stance toward the basic theoretical presumption of economics, Homo economicus with its assumptions of rationality of action, perfect information, fixed and stable preferences, and the independence of individual decision making, thus seriously doubting the general validity of the science of economy. Weber's unfinished contribution was almost forgotten for decades, and he is still today better known for his analyses of the cultural conditions and consequences of economic institutions and orders, modern capitalism in particular, than his sociological concepts of economy, or what might be called real economic sociology. His leading idea, according to which commensuration and calculability offers the key to the understanding of the modern capitalist market economy, has, however, found increasing resonance in economic sociology.

CHAPTER 3

What Is Money?

The functions of money

In his *Wealth of Nations,* Adam Smith explained the invention of money as follows:

> In order to avoid the inconveniency of such situations [where the producers of different commodities do not find anything In the market they need to exchange their own produce with] every prudent man in every period of society, after the first establishments of the division of labour, must naturally have endeavoured to manage his affairs in such a manner, as to have at all times by him, beside the peculiar produce of his own industry, a certain quantity of someone commodity or another, such as he imagined few people would be likely to refuse in exchange for the produce of their industry (Smith 1995[1776]: 35–36).

Smith also presumes that 'in all countries, however, men seem at last to have determined by irresistible reasons to give the preference, for this employment, to metals above any other commodity' (Smith 1995: 37–38). Metals are durable and can be cut into equal portions. Finally, for equally irresistible reasons, as Smith thought, the most precious metals, gold and silver, have become the commodities, which have acted as means of general exchange or money.

This explanation of the emergence of money in terms of its function as a general means of exchange has become commonplace in economics and has been repeated in slightly modified forms since ancient times. For instance, Carl Menger, whose economic thinking influenced, as we have seen, Max Weber and Georg Simmel, among others, repeated it more or less as such. Smith did not invent it either. It was common knowledge. The historical validity of this explanation or myth can be seriously questioned; it suffers from the same shortcoming as all functional explanations. It claims that—unconsciously—people agreed out of common consent on the use of money in order to satisfy a social need and make their life easier.

Marx repeated this story in his *Capital* (1973a [1867]: 84–93) in describing the 'inevitable' development or transformation of the value forms from simple to general, culminating in the deduction of the money form. In contrast to

many other political economists, Marx made a principal distinction between the historical genesis and the general validity of money, or the historical and logical deduction of money, not making the latter dependent on the former, recognizing that the historical origins of money, whatever they may have been, do not explain why it is generally valid as the generalized media of exchange.[1] It explains even less why commodities take the specific social form of money, or as Marx expressed it: why a commodity becomes doubled as a commodity and money. In Marx's reasoning, it is no secret that money is a commodity among all others. Instead, we must explain why a commodity takes the money form or, in other words, has an objective and generally valid price. However, despite separating these two aspects of the emergence and establishment of money, Marx also thought that the 'logical' deduction of money follows in the main features its historical development, which makes it more plausible.

It was common knowledge in classical political economy as well as in modern economics that money has three functions. It is a medium of exchange, a store of value, and a unit of account. If 'money is what money does,' one could well argue that in order for something to deserve to be called money it has to fulfill all three functions.[2] The standard economic theory of money concentrates on one of the functions: money as a means of exchange. In these theories, money comes into being as an unintended consequence of the economic rational reasoning of the individuals.[3] As Smith believed, in order to maximize their barter options, astute traders will hold in stock some of the most regularly exchanged commodities that they expect others will accept in the future in exchange for the goods they possess. Consequently, one of these, more or less gradually, and as if by chance, emerges from among all the myriad options on offer as the general media of exchange, mainly because of its advantageous material properties, such as durability, divisibility, and portability. In various historical periods, different kinds of valuables have acted as means of exchange, for instance, furs in the Novgorod Russia's fur trade with Western Europe or huge stone rings in ancient Polynesia. Finally, a generally accepted coinage emerges, as if crystallized out of all available options, the value of which is based on the extraordinarily high value of precious metals. The general media of exchange, or money, allows for the natural process of barter trade to develop into more extensive and general exchange of commodities, and finally to a fully fledged market economy.

In these mythical genealogies of money, the traders come to realize that their life would be much more convenient if they could trade with each other using a generally accepted commodity, money. Money is, in other words, invented and based on a social contract, as if men had in ancient times come together and agreed on the use of some particular commodity as their general means of exchange. In the more scientific accounts of the origins of money, like Menger's, money is not a result of a conscious decision and consent of human beings but explained by some kind of a hidden and subconscious rationality inherent in the economic action of men. It goes without saying, that such 'as if' explanations, or functional explanations, have, at the most, a heuristic value.

As a matter of fact, the early Marginalists, including Karl Menger, expressed doubts about such a historical deduction of money. According to Ingham (2004: 23), Menger asked why individuals should be ready to exchange goods for worthless little metal disks or pieces of paper. The problem was, how can institutions such as money make for the common interest, while conflicting with the nearest and immediate interests of contracting individuals? The individual use, or the rationality of the use of money for the individual, presumes that it is already generally accepted and in use by all partners of exchange. Why then should the participants acknowledge the validity of money and commit themselves to its use before they can be certain that everyone else does? Since Georg Simmel and other classics, sociologists have emphasized that monetary institutions are based on trust. As Beckert (2016: 47) put it more recently, 'money is essentially a relationship of trust.' (See also Seabright 2010.) But why should the market participants have trust in money? The explanation becomes easily circular: what is to be explained is already taken as a given. Alternatively, the validity of money, as well as the prices of commodities, is understood simply as an empirical, historical fact; in normal times, people seem to acknowledge without questioning the use of money in their relations of exchange. The advantages of money in promoting the exchange of commodities presume well-established monetary institutions, which, on their part, cannot possibly be deduced from the practice of accepting money in exchange. As Ingham put it: 'To state the sociologically obvious: the advantage of money presupposes monetary institutions.' As he continues, 'modern neo-classical economics has been entirely unsuccessful in its attempt to explain these from their spare "micro" assumptions' (Ingham 2001: 308).

There is another interesting consequence of this kind of historical explanation about the emergence of money. If we follow its advocates' reasoning, the introduction of money into an economy of barter does not add anything essential to it. Money is just a technical instrument, which makes the economic transactions more fluent and efficient, as if oiling them. It does not, however, change the nature of the exchange relations at all. The value of the commodities is prior to their exchange relations. Expressed in modern economic parlance: money reduces transaction costs, undoubtedly an important achievement, but this means that a barter economy could function without money, perhaps even more effectively if all monetary transactions were substituted, for instance, for a complete set of accounts stored in a universal computer. Following Esposito (2010: 73), one can argue that neoclassical economy does not have any theory of money because it is 'based on the model of exchange which functions without money, and money is just an abstraction which comes into play first in the second order.'

The quantity theory of money, well-known due to the long reign of monetarism in the economic policy in the USA and Europe, is a natural companion of the exchange theory of money (see Fischer 1911). It follows from the assumption of the neutral or purely technical role of money that the purchasing power of money is thought to be equal to the total value of all commodities and

services on sale in an economic system or, more concretely, in a national economy with its own currency. The only difference that money makes is that an increase in the total amount of available money decreases all prices equally, and vice versa: a decrease in the amount of circulating money increases prices of all other commodities. It was this theoretical conception of money that Keynes opposed to in his *Treatise of Money* (1950 [1930]). Keynes's main insight was that money is not neutral in relation to production and does not affect the general price level alone. Furthermore, state budgets are not like family budgets that have to keep the debits and credits in balance, at least in a longer perspective. The state monopoly of creating money makes all the difference.

It is amazing that despite the quite evident weaknesses—or mythological nature—of the exchange theory of money, economists adhere to it and frequently refer to it in textbooks of economics. For instance, Mankiw and Taylor (2011: 617) refer simply and quite straightforwardly to our commonsensical understanding according to which 'money is the set of assets in the economy that people regularly use to buy goods and services from other people.' However, it has a serious challenger, which is over a hundred years old, systematically formulated by Georg Friedrich Knapp in his Staatliche Theorie des Geldes (1918 [1905]), or the *State Theory of Money.*[4] Knapp's theory of money takes as its starting point another function of money, namely money as a unit of account, and not as a medium of exchange. (To my knowledge, no one has tried to claim that the third function which any real or genuine money must fulfill, the store of value, is the crucial or historically primary one.) Knapps's theory is a credit theory because to him money is primarily something that the citizens of a state, or a sovereign's subjects, can use in order to pay their debts—or rather taxes—to the state. The state accepts it in settling its accounts with its citizens. Money is thus a device of calculation used in clearing accounts and paying debts. The power of government to impose a tax and to name what is approvable as a proper payment of taxes is both the sufficient and necessary factor in the establishment of money (Wray 2014: 14). Money is, in other words, a medium of balancing any accounts approved and authorized by the state.

According to Ingham, who is its strong supporter, in the state theory:

> money is uniquely specified as a measure of abstract value (….) and as a means of storing and transporting this abstract value (for means of final payment and settlement of debt (…). All the other functions—medium of exchange, for instance—may be subsumed under these two attributes. … Money of account is logically anterior to any form of money that bears the abstract value. …. 'Moneyness' is assigned by the money of account, not by the form of money (Ingham 2004: 70).

As a consequence, money can take many forms, and it may just as well exist 'materially' as paper money or even, to take a modern alternative, as mere entries of magnetic traces in the computer networks that represent the credit

relations that comprise the whole monetary system. (Ingham 2004:70). Ingham summarizes the basic truth of the state theory of money in the following: 'Money is a "token" value established by an abstract money account.'

According to Knapp, the state determines by law the monetary unit of value and chooses the valid means of payment of all the debts to and from the state. In the last instance, money is a system of tokens that do not have any value in themselves (fiat or paper money) and that the state is willing to accept as payments of taxes. It can simply be a piece of paper with a sign or a label of authorization from the state treasury or the central bank of the state. Therefore, one can reasonably argue that the relation between a creditor and a debtor constitutes money (Ingham 2004: 73). Fundamentally, this takes the form of a promise that the money, or 'credit,' will be accepted by the issuer in settlement of its own debt (Ingham 2004:75). It presumes that the issuer has the authority to guarantee its validity. It is therefore natural to presume that only the state enjoys such general authority.

The state theory of money, or the fiscal policy which takes it as its starting point, is referred to as Chartalism, and its modern version Neo-chartalism, because, according to it, money is a chartal 'instrument' of payment. As Wray (2014: 2) formulated it, 'in the Chartalist approach, the State (or any other authority able to impose an obligation) imposes a liability in the form of a generalized, social or legal unit of account—a money—used for measuring the obligation. This does not require the pre-existence of markets, and, indeed, almost certainly predates them.' Money and prices preceded markets, a claim which turns the neoclassical econonomic orthodoxy on its head by reversing the historical order of the constitution of money. The generalized exchange of commodities did not precede money and money prices. Quite the contrary: 'once prices and money were established, it was a short technical leap to creation of markets' (Wray 2014: 14).

Knapp explained that the decisive criterion of 'moneyness' is not any intrinsic value of goods but the fact that money enjoys authorization of the state and is therefore a valid means of payment within the jurisdiction of the state. As he lamented, the natural man is a "metallist" and has difficulties in admitting that something which is totally useless and valueless as such, like a piece of paper, can function as money without being convertible, at least in principle, into gold or some other valuable substance. This explains, in his mind, the persistent equation of 'money' with a 'coin' and with some substance possessing intrinsic value and such material properties, like divisibility into equal portions or durability, typical of valuable metals (Knapp 1918[1905]: 8–9).[5] More recently, some economic sociologists have rediscovered the state theory of money, most notably Ingham. However, Knapp had an early and highly influential follower among economists, in the shape of John Maynard Keynes. As Paul argues, 'in accordance with Knapp, money is for him [Keynes] both structurally and historically the creation of the community or the state which enforces, for the first, the keeping of trade and credit contracts and, for the second, determines

in which form, that is in which kind of coinage the corresponding debts can be cleared or made even' (Paul 2012: 161). To Keynes as well as to Knapp, all money is a form of credit. It follows that finance markets are just derivatives of credit (Paul 2012: 183; cf. Wray 2014: 15).

In his *Treatise of Money,* Keynes added to the two types of money, commodity money and fiat money, a third one—managed money. Fiat money or a bank check is a token, a currency without intrinsic value. It has value only because a government maintains and guarantees its value, whereas 'managed money is similar to fiat money, except that the State undertakes to manage the conditions of its issue in such a way that, by convertibility or otherwise, it shall have a determinate value in terms of an objective [gold] standard' (Keynes 1950 [1930]: 9). Managed money and fiat money are alike in that they are representative of paper money, having relatively little or no intrinsic value apart from the one determined by law or practice of the state. Both 'commodity money and managed money are alike in that they are related to an objective standard of value' (Keynes 1950 [1930]: 9). The 'pure' fiat money is, however, the most interesting one since it concretely proves, in the minds of the supporters of the state theory of money, the independence of money from any material substance with an intrinsic or fundamental value. Such money is a creation of banks (bank notes) or the central bank (which accepts bank notes as a means of settling the accounts). In Keynes's reasoning, money is not neutral in relation to production, or 'real economy,' and does not only affect the general price level. It can also affect the relation between the different actors in an economy. According to Keynes, the real challenge of a theory of money is to treat the problem of prices and money dynamically, analyzing the different elements involved, in such a manner as to exhibit the causal process by which the price-level is determined, and the method of transition from one position of equilibrium to another (Keynes 1950 [1930]: 133).

The new historical research about the origins of money would seem to support the state or credit theory of money. For instance, one can argue, that there never was any real gold standard. Coins with the same denomination printed in valuable metals could vary a lot in weight. According to Ingham (2001: 319), 'the continuous stability of the abstract ratios over very long periods of time and the existence of abstract purchasing power, regardless of the precious metal content of any coinage, is the most telling evidence for the fact that, in the first instance, money is a "token" value established by an abstract money of account.' Instead, the seigniorial stamp on the coin was decisive in establishing and confirming its authenticity and value. It did not differ that much from paper money, after all. As the historical evidence goes, money as an accounting device (e.g., small pieces of clay or marked wooden sticks) developed long before any general market exchange relations in Babylonia and Egypt as a means of counting and paying taxes (debt) to the state. Referring to Wray's (1998) account of the history of money, Ingham (2001: 316) argues that it is well established that abstract money accounting was a fundamentally important technique for the

economic organization of the command economies of ancient Near East. He is quite convinced that money of account was an essential means of accounting for both debtor-creditor relations and the allocation of resources in these pre-market, pre-capitalist economies. Mitchell-Innes, one of the founders of the state theory of money, was an advocate of the claim according to which money evolves not from a pre-money market system but from the 'penal system' based on the ancient practice of 'Wehrgeld,' used as a compensation for offending the honor of a person (Wray 2014: 9). Historically, money emerged as a means for the state to pay for the king's mercenary armies, for which the king had to take a loan from rich merchants. The king, or the state, remained thus in debt to its creditors, and the debt was guaranteed by the king's treasurer.

These, and similar historical facts all strongly support, in the minds of its adherents, the state or credit theory of money. The same serious doubts that can be raised against the exchange theory of money concerning the relevance of the historical origins of money to its present-day validity as a general means of exchange can, however, be directed against the state theory of money too. More fundamentally, one can question the logical conclusion of the state theory, according to which money functions primarily as a mathematical instrument of calculation in accounting, enabling numerical equations. Knapp is undoubtedly right in presuming that in order for any item, or 'token,' to function as money it needs an authorization from the state or some other legitimate institution. This is, in fact, also presumed in other theories such as the theory regarding relations of barter and the exchange of commodities, even though according to these, that is not the decisive moment in 'moneyness.' In the usual historical or 'pseudohistorical' accounts, a certain commodity has been selected as the commodity money—or elevated to function as the general equivalent—and the role of bullion fell naturally on gold and other valuable metals because of their concrete material qualities, but it was still in need of the sovereign's authorization. The state guaranteed, either by force or by its legitimacy and the trust it enjoyed, the validity of the state currency.[6] However, in the state theory of money, the decisive moment is when the state accepts the money at its value as the final settlement of accounts or a payment of debt. Private bank notes can circulate as money within a closed circle of their own but not as generalizable means of payment, unless guaranteed by the state (central bank). Private IOUs can similarly function as money, as did notes of private banks (in England) as long as they can freely be transferred to a third party as a means of payment. The invention of modern transferable debt certificates was in fact crucial to the birth of modern capitalism, allowing private debts to be paid and the obligation transferred to third parties.[7]

In emphasizing the role of power struggles in economy, Max Weber did in fact draw the right conclusions from Knapp's state theory of money. Monetary policy results from the conflicts between different economic agents: bankers, producers, and consumers. In the final instance, their struggle determines the value of money, the rate of inflation, exchange rates and the rate of interest,

among other things, which are never neutral entities but always economically more or less favorable to some of the involved parties. The state can act, more or less successfully, as a guarantee of the stability of prices, but this goal of monetary policy is by no means neutral either. It always favors one or another actor, either the creditors or debtors. As Ingham (2004: 81) formulated it, 'as the social relations for the production of money and of commodities must be seen as comprising two distinct, relatively autonomous sectors, the value of money is the enacted outcome of social and political conflicts between the main interests in the economy.' According to him, changes in the balance of power between capital and labor, as well as between producers and consumers, affects the purchasing power of money. Ingham goes so far as to argue that historically, the struggle between creditors and debtors 'could be the most important class struggle' (Ingham 2004: 81).

Even if one were ready to accept the main arguments of the adherents of the state theory of money, one serious problem remains: the value of commodities must precede the value of the commodity money. The state can only determine the unit of accounting. The state does confer the quality of 'valuableness' according to a money of account, but it cannot determine the relative prices of commodities, and in this sense the real value of money as purchasing power. The commodities must first have a value and be comparable with each other or differ from one another, as far as their quantitative value, expressed in money prices, is concerned. Money does not make them comparable—nor commensurate—but presumes it. We are facing the same fundamental problem as, in a more general sense, with Karpik's (2010) singularities: how to compare the incomparable or measure the unmeasurable, the value of different commodities, and calculate it in money. It is self-evident fact that one can compare monetary prices with each other and measure their prices once we know them, but what determines the relative prices of commodities? As use values, or if you like utilities, all commodities are qualitatively different from each other. How can, say, a pair of trousers have the same value as two kilograms of beef? How can they be compared quantitatively with each other? The state theory of money does not address this question. One can therefore agree with Lapavitsas's (2005: 398) critical conclusion concerning the fundamental wisdom of the state theory of money: 'the approach … confuses the undoubted ability of the state (or another socially constituted authority) to set the standard of price with an (imaginary) ability arbitrarily to set the measure of value. The state can create its own price numeraire, but this is because a spontaneous measure of value already exists that is conventionally denominated as standard price and acts as means of exchange.'

The secret of the social form of money—or 'moneyness'

One of the problems plaguing different economic and sociological theories of money is that they focus on different aspects of money. Therefore, it is no

wonder that their explanations of 'moneyness,' what money is, differ from each other quite radically. According to Karl Marx's *Capital* (1973a[1864]: 47–48), it is no secret that money is a commodity exchangeable with all other commodities. The real question, which economists had not posed before Marx, is why a commodity, as if out of inner necessity, takes the form of money. Why do commodities take the dual shape of a commodity and money? Marx tackled this problem in the *Capital* in his 'logical' deduction of the different value forms, or the dialectic of value forms, culminating in the 'highest' form, money form. It is important to note that Marx explicitly understood this question—what makes a particular commodity money or why the specific use value of one of the commodities becomes the expression of the value of all other commodities— to be both different and primary in relation to the question of the substance and quantity of value. (In his understanding, the labor theory of value gave a satisfactory answer to this.) All the other questions, including the determination of the unit of accounting, the certification of money, and the guarantee of the relative stability of its value by the state, or the question of the primacy of the metal coins or the metal (gold) standard of money, are of secondary nature to Marx. (Marx took, like all his contemporaries, the gold standard as given, which does not make his deduction of the money form less interesting.)

Marx's central question was why the commodity takes the form of value and money. Another way of putting it is to ask why and how do subjective values—that is the value of a commodity to an individual consumer whatever that might be—become objectified, socially shared, and inter-subjectively valid and taken for granted by the involved economic actors. Marx's value form analysis in the beginning of *Capital Volume One* (1973a) gave an answer to this. Marx starts with the simple value form or the exchange relation between any two, arbitrarily selected, commodities A and B. Let us assume that

$$x \text{ commodities A} = y \text{ commodities B}$$

According to Marx, this equivalent form, in which the commodity A expresses its value in the use value of the commodity B, or any such exchange relation between two arbitrarily selected commodities, is indeterminate. Therefore, it can just as well be turned the other way around:

$$y \text{ commodities B} = x \text{ commodities A}$$

In this equation, the commodity B in its turn expresses its value in use value of the commodity B.

It is important to Marx in this equivalency that one commodity, in the first case A, expresses its value in the use value of another commodity, B. To Marx, value is relational, and a commodity has value only in relation to another commodity with which it is compared and exchanged. One can therefore say that even for Marx, value comes into being first in the process of exchange and is in

need of another commodity in order to present its value and make it apparent. This conclusion may seem to contradict the labor theory of value that Marx adopted from his predecessors, David Ricardo in particular, and according to which the value of a commodity depended and was determined by the amount of labor used in producing it or 'materialized' in it. In his historical deduction of the money form, Marx too assumed that exchange partners in the simple exchange of two commodities, or more generally in relations of barter or any such pre-monetary exchange relations, would determine their exchange 'rate' by somehow consciously or subconsciously comparing and calculating the time they had needed in manufacturing them. It makes more sense, however, to interpret Marx in such a way that such a presumption, commonly made in the treatises of political economy of his times, is only a projection of the conditions reigning in monetary exchange into any kind of pre-monetary exchange between partners. To Marx himself, as well as to several of his followers in the socialist movement, most notably Karl Kautsky (1936[1906]), it obviously was a convenient shorthand that was supposed to make Marx's theory of money more accessible to the reader. However, it had serious consequences that reached all the way to the revolutionary perspectives of the movement. In the later socialist literature, the labor theory of value was, for instance, often presented—against Marx's own explicit intentions—as a normative standard of fair and equal exchange, which was supposed to have been the rule in the period of simple commodity production, in contrast to the relation of exploitation, or surplus production, which reigned in capitalism between the capital owner and the wage worker (see Gronow 2015).

The next step in Marx' logical reasoning of money is the extended value form:

$$x \text{ commodities A} = y \text{ commodities B, or } z \text{ commodities C, or } \ldots$$

Now a specific commodity expresses its value in the use values of all the other commodities in the commodity universe, one after another. Even this form leaves the value of the commodity A undetermined, or contingent, since every single act of exchange following these equivalency relations is an independent act, and hence the commodity A expresses its value only in relation to one particular commodity at any one time. Their internal relations remain therefore undetermined.

First the equivalent form, the next step in Marx deductive reasoning, fixes the value of a specific commodity in relation to all other commodities. At first glance, Marx's operation looks almost like a hat trick. He simply turns around the terms of the previous equation into the general value form:

$$\left.\begin{array}{l} y \text{ commodities B} \\ z \text{ commodities C} \\ t \text{ commodities D} \\ \ldots \end{array}\right\} = x \text{ commodities A} \ldots$$

Now all other commodities express their value in the use value of one and the same commodity—A—which takes the form of the general equivalent, thus fixing their mutual exchange relations and making all the commodities quantitatively comparable with each other.

The deduction of the money form is complete when a particular commodity is fixed as the general equivalent. As a matter of fact, this does not add anything new to the developed value form. Quite understandably, from the point of view of his historical experience, Marx suggested that historically and for practical reasons, precious metals, gold and silver, have in general had the honor of acting as money. In principle, it could be something else as well, as long as the particular commodity is recognized as the general equivalent, thus becoming equal to the money form. What have we now achieved following Marx's 'dialectic' deduction of the money form?

At first glance, Marx's deduction looks as if he were following the standard narrative of the historical process of the advent of money due to the needs of more extensive exchange relations familiar from the political economy of his times. It looks as if all the commodities had gradually selected from among the universe of commodities a specific commodity as the general equivalent—money. On the other hand, it is obvious that Marx thought that the equivalent exchange of commodities would become the general rule first in a fully fledged market economy. All tales about 'simple commodity' producers, or medieval artisans and traders counting their working hours and thereby determining their mutual, correct, and fair exchange relations are imaginary, after all. Barter relations and relations of exchange of gifts have certainly existed since the ancient times, and can still exist side by side with the exchange of commodities, but they do not follow the principle of the exchange of equivalents.

The main wisdom to be taken from Marx's reasoning is that in a mode of production in which the manufacturers produce for an anonymous market, as opposed to for themselves or for any particular customers by order, one can never know in advance whether the products satisfy any social need or demand at all. One can agree thus with Lapavitsas's (2005: 391) interpretation in his critique of the state theory of money advocated by Ingham (2004): Marx's fundamental starting point is the presumption that the commodity owners approach each other as 'foreign' and completely isolated individuals. Therefore, commodities are socially useful only when mediated by monetary exchange. Therefore, the 'market community' is, out of necessity, the community of money. As Marx reasoned, the private labor of an individual producer becomes socially useful only through exchange of his commodities on the anonymous market, and therefore the whole system of commodity exchange and production presumes the existence of a commodity in the form of the general equivalent, or money. One could even say that it is first money that constitutes the market of equal exchange. Commodities are produced by private labor of the individuals and become social only through exchange. Therefore, their value must be presented in a socially general form. Private labor must, in the process of exchange,

be transformed into general, social labor, and commodities must express their value in a specific commodity—money (Gronow 2015: 260–1). Backhaus concluded that the concept of a pre-monetary commodity is a contradictio in adjecto, and therefore it is impossible to think of a process of equal exchange with pre-monetary commodities. Consequently, Marx's social theory of value should be understood as a critique of a pre-monetary value. Value does not precede its form of appearance, money. But value cannot be reduced to it either (Backhaus 1981: 141, 128; see also Backhaus 1997: 41–66).[8]

Marx shows that the social constitution of the market economy is only possible with the use of money as the general equivalent. Otherwise objective values of commodities and presumed prices would not exist. Marx continued his analysis of the money commodity in a standard way by introducing the three main functions of money: exchange medium, medium of accounting, and preservation of value. They were all common knowledge to the political economists of the time. However, the discovery of the 'secret' of the value and money form solved only half the problem. In this respect, Marx's discussion of the determination of value in his *Theories of the Surplus Value* is highly illuminating. Marx proceeds in a classical manner by playing two contradictory positions, Ricardo's labor theory of value and Bailey's exchange theory of value, against each other. He showed that, while both possess a grain of truth, they cannot both be true at the same time. He uses the old Aristotelian rhetoric device of saving the argument by introducing a third alternative that both overcomes the contradiction and saves the rational kernel of both the arguments. The first of these contradictory arguments claims that because the value of a commodity varies from one exchange relation to another depending on the exchanged objects, it obviously comes into being only in the relation of exchange and does not exist prior to that (Bailey). Therefore, it cannot be an inherent property or substance of the objects. On the other hand, it is reasonable to claim, as Ricardo did, that in order to be exchanged two commodities must possess some common quality that makes them comparable and commensurate, independent of and prior to the process of their exchange. According to Marx, Bailey's merit in relation to Ricardo was that he abandoned the problem of the constant measure of value essential to Ricardo's labor theory of value (Marx 1971: 133–4). In Marx's opinion, Bailey was right in presuming that it is not necessary to suppose that the value of the particular commodity in which all other commodities are measured is a constant entity such as absolute labor time. Bailey was wrong, however, in denying that two commodities must have a common quality or substance to be exchanged, which is different from their existence as useful objects. (As useful things, they are always naturally and qualitatively different.) Bailey reiterates that the value of the commodity is based on the exchange relation of commodities and, consequently, it is nothing separate or independent from this relation (Gronow 2015: 258).

Bailey justified his argument by pointing out that the quantitative relations of commodities in exchange; consequently, their prices are not constant but

vary from one act of exchange to another. Therefore it is logical to presume that the actual relation of two commodities in exchange exclusively determines their respective values. To Bailey, the concept of value was only a fictional and metaphysical entity, wrongly deduced from the existence of money and objective prices (Marx 1971: 145–6). As Marx thought, Bailey was indeed right in stating that the value of a commodity can only be expressed in its relation to another commodity—or more correctly, they must present their value in that of a third commodity (money) (Marx 1971: 259). On the other hand, Bailey did not understand that in order to present themselves in money, commodities must share a common substance; their quantitative relation presupposes a common denominator or a 'homogeneity.' This basic truth can, according to Marx, be learnt from David Ricardo's classical treatise:

> A homogeneity which makes them the same—makes them values—which as values makes them qualitatively equal, is already presupposed in order that their value and their differences in value can be represented in this way. Otherwise, it would be impossible to solve the problem of expressing the value of each commodity in gold, if commodity and gold or any two commodities as values were not representations of the same substance, capable of being expressed in one another (Marx 1971:134).

Following David Ricardo, Marx thought that this common substance was human labor used in producing the commodities and their value could therefore be measured in units of labor time. Marx justified his conclusion by excluding other alternatives by arguing that that there cannot possibly be any other 'homogeneity' that would be common to all the different commodities; as useful objects they always differ from one another qualitatively. Furthermore, if they were not qualitatively different from each other, there would be no idea exchanging them with each other.

Marx's conception differed from Ricardo's in that to him, the common substance was not just any kind of concrete labor, not even general, or average, labor, but abstract labor. The concrete labor of the workers takes the form of abstract labor only when their products are exchanged in the market of anonymous individuals. Therefore it does not precede the exchange of commodities but is constituted by it. In other words, it is a social construct and not their natural substance. Human labor offers itself as the best (or in Marx's opinion, the only) possible alternative for the substance of value. But just as the products of labor take the form of value, and further, money, only under the specific social conditions of the capitalist market economy of the equal exchange of commodities, so does the labor materialized in them take the form or shape of abstract labor only under the capitalist relations of production.

Marx's labor theory of value has been criticized extensively during the 150-odd years since the publication of the *Capital* by showing how it faces several unsurmountable theoretical problems. In fact, Marx himself realized some of

its problematic consequences. First, it is not clear how the relation between the value of commodities, determined by the amount of abstract labor used in their production and their production prices, and real market prices is determined. As the critics have pointed out, what is the sense of the labor theory of value if it is of hardly any help in determining the prices of production, and, further, market prices, if they differ from their value?[9] Following Menger's and Weber's usage, one could say that, even in Marx's case, the empirical prices and theoretical prices do not correspond with each other. Furthermore, what is the relation between various concrete forms of labor and the general or abstract labor, which is said to determine the value of a commodity? What kind of labor creates value after all? How does one compare and calculate, for instance, the relation between the value of the products of qualified and non-qualified, simple labor or socially necessary and concretely used labor? Should we take into account only productive labor materialized in commodities, and not at all work done in trade, services, banks, or by the civil servants, etc.? In Marx's theory, they do not participate in the creation of new value, but their wages and salaries, as well as profits, are deduced from the value created by the work of the productive, industrial laborers—a presumption that is even more problematic now than in Marx's times, in a society with the overwhelming majority of workers are not employed in any kind of industrial production. One could continue this list of critical comments. However, one should keep in mind that Marx's *Capital* did not primarily aim to explain the formation and determination of market prices, nor did it include any idea of a market equilibrium that in later neoclassical economics became associated with the effective use of economic resources. It was rather the origins of the surplus value and the accumulation of capital that Marx was after in his *Capital,* as well as the clarification of the principles governing the distribution of the national income between his three social classes, capitalists, wage laborers, and landowners. To this task, his labor theory of value was quite essential; the riches of the society were created by the labor of the wage workers, after all—and by the natural fertility of land—under the conditions of the capitalist production alienated from them.

Marx's distinction of the value form from the substance of value implies that the result of his analysis of the constitution of money does not necessarily stand or fall with his own conviction of (abstract) labor as the substance of value.[10] We can join Lapavitsas (2005: 392) in his conclusion that, to Marx, 'money's emergence is associated with the development of the form of value. … it shows money to be the outcome of social relations among commodity owners. Fundamental to it is the assumption that commodity owners approach each other as "foreign" individuals.' In the history of Marxism, there have been interesting theoreticians who have concentrated their interpretative endeavors in exemplifying Marx's value form analysis. They have obviously not done this simply to avoid the problematic question of the substance of value and the labor theory of value. Instead, they have pointed out what they believe to be the most standing and original achievement of Marx's thinking. Franz Petry's German doctoral

dissertation from 1916 is perhaps the most systematic and consequential of these efforts. He called it, quite adequately, 'The Social Contents of Marx's Value Theory.' Isaak Rubin's (1973) work from the early 1920s is another and perhaps a better known attempt to rescue Marx's value theory from its critics with the help of the value form analysis. The orthodox Marxists of the II International, Karl Kautsky (1936 [1887]) being the most prominent among them, as well as later Soviet Marxists, largely neglected this part of Marx's *Capital*. They were all ardent adherents to the labor theory of value, because they believed that it alone could explain the origins of the surplus value and capitalist exploitation. They regarded it as the essence of the 'authentic' Marxism. Marx's (1973a: 71–83) famous analysis of the fetish character of the commodity due to its dual role as a commodity and money is also closely related to his analysis of the value form of commodities. This was largely neglected by Kautsky and the Orthodox Marxists-Leninists (see Gronow 2015). It ends in the reification thesis, according to which, in capitalism, the social relations of human beings take the form of the relations between things, expressed most clearly in the form of money. This claim is related to Marx's even more demanding historical-philosophical thesis that under capitalism, human beings—the real acting subjects of history—lose their agency and sovereignty as creators of history and hand it over to the over-individual social formations, markets of monetary exchange and capital.

There is an interesting resemblance between Georg Simmel's theory of money and Marx's analysis of the value and money form. This is hardly a pure coincidence. Simmel was obviously well read in Marx's *Capital* even though he does not take any explicit critical stance to it. As Paul explicates it, Georg Simmel's theory of value and money does not pose the question of the substance of value, but emphasizes its relational character, and in this respect it comes close to what Marx put forth in his *Theories of Surplus Value* as the rational kernel in Bailey's conception of economic value. However, Simmel does not systematically develop the deduction of the various value forms, money included, as Marx did (Paul 2012: 172). Like Bailey, Simmel emphasized that objects become intersubjectively comparable first in exchange: 'They appear as something independent, as distanced from the valuing subject, first when they are related to each other. Before that they are still hidden in the inner of the subject' (Paul 2012: 93). Expressed in a slightly different way, 'only in exchange, in their being brought into relation with each other, do they detach themselves from particular, subjective valuations and reach an objective status' (Cantó Milà 2005: 164). Consequently, values are constituted and objectified first in exchange, not prior to it (Cantó Milà 2005: 165). Because of its relational nature, Simmel does not explicitly pose the problem of the substance of value: 'A value is rather a relation, a form, which has its origins in the interaction of a subject with the world of objects and at the same time hides its origins…' (Paul 2012: 93). Money, as the general medium, or the means of the means, can realize any object. As such, money is 'empowering' (Dodd 1994: 159). It is an incarnation of the relations of exchange, or the exchangeability of

objects, or of social intercourse ('Wechselwirkung') in general. The social and economic processes of the objectification of values, central to Simmel's analyses of the cultural and life-philosophical consequences of the use of money and the general objectification of culture, remain hidden in Simmel's theory of money. Simmel is right in presuming that comparing makes valuation relevant, but he did not explicitly address the question what makes objects of exchange intersubjectively comparable.

Orléan (2014) most emphatically defends the position that the value of a commodity or money cannot be reduced to any such pre-existing substance that they would share independently of the relations of exchange. Orléan could, in fact, be almost paraphrasing Bailey in stating that 'market value is an autonomous phenomenon that cannot be reduced to any preexisting magnitude, such as utility, labor, or scarcity' (Orléan 2014: 4). He calls his model mimetic. As he argues, the great advantage of such a model is 'that monetary value can be seen to emerge from commercial transactions themselves, without there being any need to appeal to an external principle, whether fundamental value or some other presumptively objective condition of economic activity. What I call the autonomy of market conditions consists of just this' (Orléan 2014: 6). Interestingly, Orléan does refer approvingly to Rubin's (1973) classical interpretation of Marx's value form analysis in arguing that economic value cannot be identified with any independent entity or substance that preexists commodity exchange. On the contrary, in his opinion, 'it must be considered as something that is uniquely the product of market relations, through which the commercial sphere itself attains a separate existence, independent of other social activities' (Orléan 2014: 5). Orléan's critique is targeted equally to the labor theory of value of the classical political economy and the concept of utility and the theory of marginal utility in the neoclassical economy. He is undoubtedly right in emphasizing that 'money … is a social institution of singular consequence, for it supplies the basis for prices and exchange' (Orléan 2014: 4). From this it follows, as Backhaus (1981) already pointed out, that a premonetary exchange of commodities with objective values and prices is a contradictio in adjecto. Such an exchange would be closer to a barter, with unstable results and open to bargaining, than to the equal exchange of commodities. To Orléan, capitalist market relations and market economy are completely self-referential: 'Actors no longer concern themselves with either utility or prestige but with the power of the market itself' (Orléan 2014: 199).

Even Orléan does refer to some 'fundamentals,' such as utilities, which lie behind the determination of economic values, even if the relation is in his opinion rather vague. One gets the impression that he was not really able to make up his mind: 'And yet I hesitate to take my leave of the substance hypothesis without paying tribute, not only to its power, but to its audacity. There can be no doubt that it captures at least part of the reality of market relationships' (Orléan 2014: 35). Therefore, he admits that the demand for utility can also play a role in this connection, but if it does it does so only as one element among others.

In the end, value is the result of the social relations among the market actors who tend to follow each other's reactions and imitate each other's behavior and evaluations. He points out in particular the social mechanism of status competition, understood in the spirit of Thorstein Veblen. The market value that results from status competition is, as he claims, of a 'new kind,' connected to prestige based essentially on the mimetic act, or the imitation of one's superiors (Orléan 2014: 199). However, Orléan does not go into any details about the functioning of the status competition in the economic markets. He also does not show how it determines market values and, in the end, the prices of commodities. In this respect, Podolny's (2005) and Aspers's (2010) studies of status markets are more explicit and useful.

The problem of Orléan's reasoning is that he, while he turns down the idea of any idea of 'fundamentals of value,' refers to a fundamental principle—commensurability—which 'governs exchange in all its numerable instances, and thereby gives shape to economic life, is a result of applying a method of abstraction similar to the one employed by the natural sciences' (Orléan 2014: 35). He fails, however, to give any satisfactory answer to the question of what, in the lack of any substance of value, makes commodities comparable and commensurate. To express it in another way: how are subjective values objectified and how do they become accepted in commodity exchange and market relations? As repeatedly pointed out in this study, the mere existence of money as a representative of universal purchasing power cannot explain the formation of objective values and prices of commodities sold and bought in the market. As Marx pointed out when criticizing Bailey, there must after all be some 'substance' to value that makes them comparable and commensurate. If one agrees with Karpik, Orléan, and others, that one cannot reduce these fundamentals to any inherent—not to mention material or natural—properties of the commodities exchanged, the only available explanation is that the comparability of commodities is, in one way or another, socially constructed. This does not make their values any less objective, in the sense of being shared and accepted by the market participants. The decisive question that remains is: what are the social processes, which constitute economic values, and how do they do it? Status competition is certainly one of them, but only one among several others.

CHAPTER 4

Sociological Theories of the Market

Market identities and status hierarchies

In today's political discourse, politicians repeatedly refer to markets as a solutions to all kinds of economic and social problems. As a consequence, markets get almost mythical dimensions: markets will do that, markets will decide, markets will react to this or that, and so on. They often seem to understand the reactions of the markets as resulting from the joint actions of a great multitude of individual but anonymous market actors turned into one single collective actor. The doctrine of consumer choice as well as the principle of consumer sovereignty are essential parts of this assumption. As Alan Warde summarized:

> it supposes an autonomous individual confronting a potential situation of acquisition through purchases, who consciously wants a particular item or service, the means to satisfy which are available and where options exist, making a discrete and deliberate decision, without prejudice to future decisions, where no punishment or disadvantage will ensue and personal satisfaction will be enhanced (Warde 2017: 206).

The famous metaphor of the invisible hand adds to this the idea that somehow, out of all these individual actions that only strive after their own best following their individual and independent preferences, a market equilibrium emerges each time. If no external factors are allowed to interfere, this will end up in the optimal allocation of the resources. These economic actors operating on the market are isolated from each other, and the exchange of commodities is the only social tie between them. Their relationship to commodities is a private relation 'in which socially isolated individuals seek by a process of introspection to estimate and compare the effects of consuming a variety of different goods. Note too that the results of this evaluation are wholly subjective' (Orléan 2014: 38). Their community is that of the objectivity of the market prices, taken for granted and shared by all. Somewhat amazingly, despite the central role often reserved to markets in economic discourse and policy, there is no general theory of the market (Esposito 2010: 91).

Both economic sociologists and institutional economists reiterate that economic markets are always socially embedded, and therefore the market actors are not completely atomistic individuals but have different identities and play different roles. This is not the case in the standard models of the neoclassical economics. Alfred Marshall is a good example. He codified the neoclassical economy in the 1890s. His model of a perfect market is the stock exchange, where sellers and buyers are identical and exchangeable. A buyer today can be a seller tomorrow. This is, however, not usually the case in other markets, such as the consumer goods market, where the roles of the buyer and seller are strictly separated (see Aspers 2010 and 2011). What is even more remarkable in Marshall's model of the pure market is that there is no direct contact between the buyers and sellers. The postulated auctioneer instead plays a central role in setting the prices. As Orléan (2014: 44) formulated it, 'everything occurs instead through the offices of an auctioneer. The auctioneer does three things: he communicates prices to economic agents, modifies prices in response to observed imbalances between supply and demand and presides over trading once an equilibrium has been discovered.' As a consequence, the formation of prices takes place wholly external to individuals: All economic agents are 'price takers.'

No one denies that through legislation, the state undoubtedly plays a crucial role in the constitution of economic markets, despite the fact that neoliberal economic politics has been eager to deregulate markets relying on their self-regulation increasingly since the 1970s. At the same time, new forms and logics of regulation have emerged instead. For instance, within the official rules of the European Union, Davies (2013) identified three separate logics, each of which offers the state a justification to suspend the competitive market order: exemptions, which allow respecting non-market values; externalities, in which markets are technically inefficient; and exceptions, in which the state saves the market against its internal logic. The reactions to the 2008 financial crisis are a good example of the last case. Markets can differ because of their different history and legal structure concerning the property rights, structure of governance and rules of exchange. Economic sociologists also claim that there are all kinds of informal rules, norms, and social expectations that constitute markets and make them different from one another. As they emphasize, markets are always socially embedded. The crucial question is then how economic sociology understands economic markets; what does embeddedness mean on different occasions and what are its consequences to the functioning of the markets? If sociologists are able to prove that they can make a serious contribution to a better understanding of economic markets as social institutions, this is a good criterion of their success in challenging standard economics.

In many social processes, ego's actions depend on the actions of the alter, whose actions in their turn depend on ego's, whose actions depend on alter's, and so on, ad infinitum. This is the famous dilemma of double contingency: I will do something if only you will act first, and you will do something if only

I shall act first. My reaction depends on your choice, and yours on mine. As a result, no one is ready to make the first move. This is in fact often the starting point of economic action: people make investments based on their expectations about payoff, where payoffs are a function of the investments of others, and expectations are themselves based on the expectations of the expectations of others (DiMaggio 2002: 92; Esposito 2010). Without any safety nets or guidance, people would live in a permanent state of uncertainty. Parsons, like Durkheim before him, resolved this dilemma of the double contingency of social action by postulating the need for some social norms that first make it possible to presume and predict the response of others and react to the reactions of others on a more predictable basis. An alternative is to rely on some 'rules of thumb' based on tradition or, more generally, on the habituality of action presuming that, under normal conditions economic actors, such as investors, resort to old cultural solutions and habits of behavior, and therefore will go on conducting their 'business as usual' (Keynes 1964: 114–17; see Ilmonen 2011: 18). In case these expectations become seriously challenged and people lose their faith in the 'normal' behavior of the other market actors, typically during economic crises, their reactions can lead to a collective panic and market failure. In such cases, the market failure is the result of the perfectly rational behavior of the economic actors involved, who act to their best knowledge following their expectations about the other actors' behavior and observing the following development of the market prices. People not only follow the behavior but also observe the expectations and observations of other market actors, who again observe their observers, ad infinitum. Markets are, in other words, self-referential social systems (Esposito 2010). This becomes, most evident—sometimes with drastic consequences—in the financial markets.

In one way or another, most economic sociologists rely on Talcot Parsons's advice which, in a very general form, Granovetter (1985) repeated in his thesis of 'social embeddedness' of economic actions. Their advice is to look for relatively stable social expectations and norms that guide the market actors. What kind of social expectations they have in mind varies in different theoretical approaches, from shared cultural values and norms to hierarchically ordered role expectations. For instance, Fligstein, in his programmatic statement about economic markets, refers both to shared rules—formal and informal—and conceptions of control. In his sociology of the markets, shared rules refer to general social rules that determine relations of competition, cooperation, and market-specific definitions of how firms are to be organized. They can take two forms: laws and informal institutional practices. Concepts of control, in their turn, 'reflect market specific agreements between actors in firms on principles of internal organization (i.e., norms of hierarchy), tactics for competition or cooperation, and the hierarchy or status ordering of firms in a given market' (Fligstein 1996: 658; cf. Davis & Stout 1992)). According to Fligstein (2001: 32–33), they form a kind of 'local knowledge.' In his opinion, there are four basic types of rules relevant to the economic markets: property rights,

governance structures, rules of exchange, and conceptions of control. The social structure of a field of economy is a cultural construction whereby the dominant and dominated coexist under a set of understandings about the rules that makes one set of organization dominant.

As the above characterizations show, Fligstein's concept of the institution of markets includes both formal and informal rules, which in one way or another regulate the identity and the relations between the market actors, both in between the firms and within a single firm. In his more concrete analyses, he emphasizes two main aspects or factors: the hierarchical structure among the firms in a market and the internal power relations within the firms (or governance structures). More precisely, he divides the firms in a 'normal' market into a few large and dominant firms and several smaller followers. He calls them incumbent firms and challengers: 'Incumbent firms are large, and actors in those firms know their major competitors and frame their actions on other large competitors. Challenger firms are smaller and frame their actions in terms of the largest firms. But, they will experience the world as given—one out of their control' (Fligstein 1996: 663). The internal power relations within the firm, for instance between the shareholders and managers, are in their turn crucial in solving the results of power struggles over who can solve the problem how best to organize the firm to deal with competition (Fligstein 1996: 664).

Fligstein's (2001: 21) starting point is that, if left on their own, in any market the ability to sell and buy freely creates a kind of social chaos as the supply and demand for a given good swings widely and produces pressure on suppliers, producers and competitors. Only control and hierarchy can end the chaos and create stability on the market. More precisely:

> a given market becomes a 'stable market' (i.e., a field) when the product being exchanged has legitimacy with customers, and the suppliers of the goods and service are able to produce an internal status hierarchy in which the largest suppliers dominate the market and are able to reproduce themselves on a period-to-period basis (Fligstein 2001: 30–31).

Fligstein (1996: 663) defines a stable market as a market 'in which the identities and status hierarchy of firms (the incumbents and the challengers) are well known and a conception of control that guides actors who lead firms is shared.' Since price competition would challenge the stability of the market, the general tendency is to preserve market stability, whereas price competition is an exception. This is Fligstein's main theorem. The emergence of price challengers is always possible in principle, and they are hardly ever totally excluded, otherwise the result would be a pure monopoly. Nevertheless, competition with prices is an exception, and the firms take refuge to it only seldom and under pressure. Fligstein's normal markets are monopolistic, after all. Other factors can create market instability in addition to the price competition. More precisely, three additional factors can pose a threat to a firm's survival: 1) suppliers' control of

inputs; 2) difficulties in gaining cooperation from managers and workers; and 3) products may become obsolete (Fligstein 2001: 17). Fligstein's theoretical construct is principally a combination of two factors, status and power, which makes it close to Max Weber's idea about the market forces.

One of the merits of Fligstein's conceptual apparatus is that he can draw concrete hypotheses about the behavior of firms operating under various conditions and compilations of market competition. Stability can be challenged not only by increasing and hardening competition but also by internal power struggles. As Fligstein also claims, a successful solution of one of the problems usually solves them both. In his model, any 'normal market' consists of a small group of leading enterprises and a bigger group of smaller enterprises. In the first instance, enterprises follow the activities of other enterprises: big enterprises follow other big enterprises, small ones follow small as well as big ones. As a rule, firms keep to their old strategy unless a crises or state intervention forces them to change. Markets end up in a crisis whenever the strategy of the market leader(s) fails, but it can also be a result of new challenges that the old strategy is not ready to meet, either in the form of a radical change in demand or aggressive competition that starts cutting prices. The leading firms can face challengers from within their own market, but more often they come from outside, from markets that are close by (Fligstein 2001).

Fligstein's work offers a developed conceptual framework that directs his empirical research of the different kinds of market institutions by drawing systematic attention to the factors that, in his opinion, are decisive in explaining market stability and change.[1] It goes without saying that it is not so easy to get reliable and systematic empirical evidence about status hierarchies or internal power struggles over the market strategies of the firms or about inter-and intra-organizational politics and cultural frames that define the social relations between the economic actors. Nevertheless, Fligstein has conducted extensive and systematic empirical studies to test his hypotheses. His theory obviously helps to direct attention to the historical origins and the different historical trajectories of various markets. His empirical and historical studies deal with, in addition to labor markets, the changes in the corporate control of big American firms and the global economy, in particular the increasing dominance of the shareholder value concept as well as the presumed increase in the financial control of the firms and its effect on the firms' performance (Filgstein 1990). Many of his empirical cases concentrate more on the governance or intra-organizational side of the issue—culture of governance and the internal presumed rules—than the market structure (Fligstein 2001: 146).

Our second example of the sociology of market institutions is Patrik Aspers's (2011) work on status and standard markets. Aspers's conceptual developments are partly based on his empirical study of the global garment—more specifically, jeans—markets (Aspers 2010). He pays attention to the different identities and roles of the economic actors in different kinds of markets. According to Aspers, standard markets consist of a great number of anonymous producers

with standard products, easily substitutable for each other. In the status market, the producer identities differ and are based on their status. In other words, not the product but the social identity of the producer is important (cf. brands and branding). Obviously, the status of a producer can reflect his position either in the eyes of the other producers—as Fligstein emphasized—or consumers, or both, and even though they are often close to each other, they do not necessarily have to coincide. The determination of the market prices in these two pure types of markets differs radically, as clearly shown by the fact that in the status markets, rising prices can lead to increasing demand and not vice versa, as is the case in standard markets and as presumed in standard economics. In status markets, the high price can act as a sign of high status of the producer and the high quality of his products. Therefore, the customers are ready to buy them despite the fact that they are expensive.

There is an obvious connection to the theories of monopolistic competition in Aspers's theory, which he does not develop any further: in situations of monopolistic competition it is often presumed that the leading firms, or incumbents, can determine the price level of their products within some limits. This happens traditionally by keeping the supply under control and preventing competitors from cutting prices, which in its turn can demand the establishment of all kinds of hindrances—for instance high marketing costs—to new competitors in entering the markets. In the case of status markets, the leading firm or firms can charge higher prices because of the presumed higher quality of its products. Characteristically, in status markets the products of different producers are not perfectly, if at all, substitutable for each other; for example, Levy's is regarded as superior than the practically similar and technically as good jeans of an anonymous Turkish producer. (The next subchapter takes up the question of the relation between the quality and status in more detail.)

The standard versus status markets is but one of the dimensions that open up the field of markets in Aspers's analysis. The second is whether the market actors have fixed or switch roles. If their roles are fixed they always act either in the capacity of a seller or a buyer, but not in both. If they switch roles from buyer to seller and back, the market is characterized by switch roles. As already pointed out, Marshall's classical model of economic markets took its model from the stock exchange. By cross-tabulating these two variables, status versus standard markets, and stable versus switch roles, we get the following table with four possible squares (see Table 1).

While the stock exchange is the ideal typical example of a standard market with switch roles, status markets with switch roles are quite exceptional, even though by no means without importance, in the modern economy. One could, however, think of examples of status markets with switch roles other than the archaic bazaar, such as investment banks, which both buy and sell shares and bonds of all kinds and which can have big distinctions of status between them. It is easy to find other examples of both standard and status markets with fixed

Table 1: Patrik Aspers's market typology.

	Fixed roles	Switch roles
Standard markets	Wholesale market of flowers	Stock exchange
Status markets	Consumer market for garments	Bazaar

Source: Aspers 2011: 89.

roles than the ones in the table because most modern commodity markets would fit into one or the other category.

These conceptual analyses of the market institutions distinguish between different types of markets and show how this can have an impact on price competition. The distinguishing features vary from one study to another. To Fligstein, they primarily reflect differences in power constellations between the producers, managers, and investors, or between the market incumbents and challengers. Aspers, in his turn, emphasizes whether the roles are fixed or switched in addition to the status of the firms and their products. Both models show how and why the standard markets of producers, which consist of a great number of independent and often anonymous producers selling homogenous products which are substitutable for each other, are only one alternative among theoretically possible as well as empirically existing markets.

Harrison C. White (1981) is often referred to as one of the first ones to point out the crucial role of the different social roles and identities of market actors in understanding their market behavior and the functioning of the markets. The assumption that firms can use only a limited amount of information about the performance of other producers in their market is central to his analysis. In many ways, this is the starting point in the contemporary sociology of the markets whose representatives, like Fligstein and Aspers, analyze differences in the social structures of the markets. One of the merits of White's analyses is that they come close to economics in analyzing the impact of the different market constellation both on price formation and demand and supply curves, two topics that are typical in standard economic analyses. Thus, they challenge economists more directly on their own turf.

According to White (2002: 1), the market discipline centers on product quality, which to him is almost identical to the reputation of the firm (White 2002: 10). The interaction of choices in the market presupposes comparability:

'The production market mechanism must guide and yet also emerge from the choices of market actors who pay attention to an array of signals. It derives from the social construction of a quality order that producers as well as buyers recognize and regularly reinforce by their commitments' (White 2002: 13).

White starts by separating buyer's demand into two distinctive factors: demand for volume and demand for quality. Similarly, producers' costs are divided into two: costs per volume and costs by quality. The market situation and the character of competition of the firms differ radically depending on which aspects dominate in each case, volume or quality. White emphasizes the importance of and differences in quality of the products or services but does not relate them explicitly to the status of the producers. Figure 1 serves as a good introduction to his thinking. He identifies different markets depending on how they are situated in relation to these variables. The first variable (the vertical vector in the figure) is the relation of buyer demand for volume to supplier cost per volume; the second variable (the horizontal vector in the figure) expresses the relation between the buyer demand for quality and supplier cost by quality. The further away from the zero point a firm is on the horizontal axis, the bigger the buyer demand for quality in relation to the cost of quality, and the farther away from the zero point a firm is on the vertical axis, the higher the demand for volume in relation to the cost of production per volume. If one follows the diagonal axis in the figure from the lower left corner to the upper right corner, one starts from the point where the production costs of both quality and quantity far exceed their demand and ends up with such commodities the demand of which for quality and quantity far exceeds their production costs. White's idea is that one can draw conclusions about price variations as well as tendencies of growth, centralization, and competition from the figure (White 2003: 135–136).

The quadrants in the figure are

> constructed by crossing the two regions in which a/c (buyer demand for volume/supplier cost per volume) is less than 1 or greater than 1 with the two regions in which b/d (buyer demand for quality/supplier cost by quality) is less or greater than 1. In other words, $a/c<1$ is where, for any growth in volume, demand goes up more slowly than producers' costs, whereas $a/c>1$ is the region where demand goes up more rapidly with volume than producers' costs. On the other dimension, similarly, $b/d<1$, for any increase in quality, demand goes up more slowly than do producers' costs by quality, whereas where $b/d>1$ is the region where demand goes up more rapidly with quality than do producers' costs by quality (White 2003: 136).

According to White, quite different histories are characteristic for markets in the different quadrants. They also expose 'different tendencies to turn into non-market forms of one sort or another' (White 2003: 136).

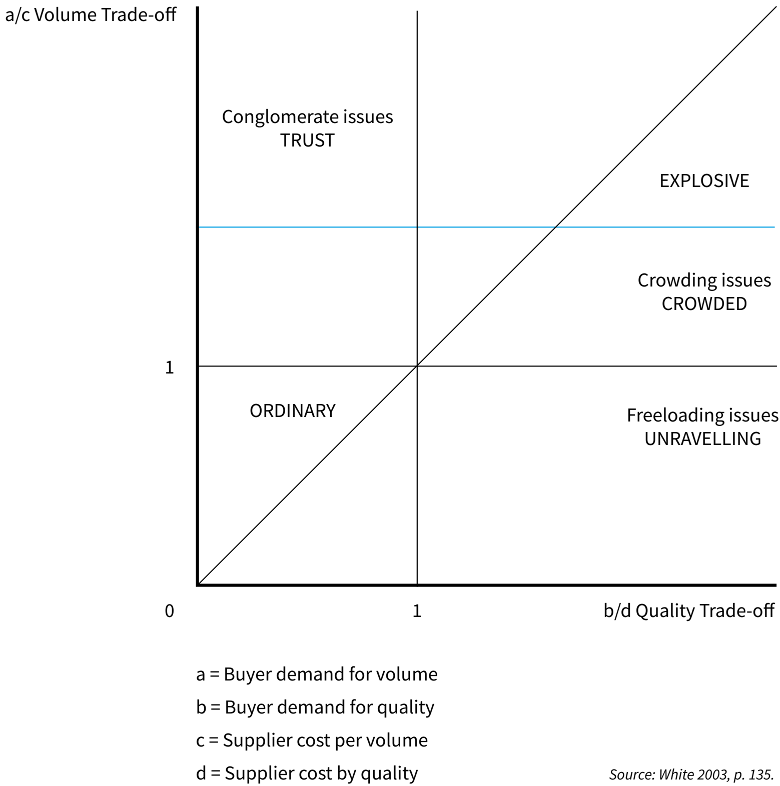

Figure 1: White's market place.

Two of these quadrants tend toward symmetry: in the lower left, the upper hand is held by buyers as to both volume and quality increases. High-volume production is lower quality and lower cost. It is hard for producers to grow, and there are more of them in the market. White gives characteristic labels to the quadrants and triangles in the figure. The producers placed in the different quadrants and triangles react differently to the changes in the demand for quality and volume:

> Thus the lower left quadrant contains the ORDINARY triangle, where producers vie for buyers who are relatively limited in their demand for volume and quality relative to what they cost producers. The upper left quadrant contains TRUST, an asymmetrical region, where there is high demand per volume cost (favoring mass production) but lagging demand for quality relative to its cost of production (White 2003: 137).

It tends towards a non-market form in which firms either conglomerate or divide up markets by volume shares, reducing radically market competition.

The lower-right quadrant is another asymmetrical region. In this quadrant there is high demand for quality relative to cost, but the demand for volume relative to cost is low. The low-quality producers tend to undercut quality and drive out higher quality producers one after another, making the market unsustainable. White calls this quadrant 'Unravelling.' As White concludes, 'the tendency is toward a guild arrangement, which fixes quality levels and restricts market entry' (White 2003: 137).

The upper-right quadrant contains the triangle that White calls 'Novel.' It is split between 'Explosive' and 'Crowded.' This market is peculiar because it becomes more profitable the bigger it is because of the adjoining buyer enthusiasm. In White's understanding, it could be compared to social movements active in the economic realm. He also refers to the bandwagon effects in the popularity of products. These features are most characteristic of novelties. Even though White does not mention it, fashion markets, if anything, should be placed in the 'Novel' triangle in the figure. In the beginning of the new fashion cycle, 'buyer enthusiasm grows faster than producer cost with quality,' just as White describes it. For this quadrant, it is important to introduce a third dimension: the substitutability of one market's producers for those of another. This third dimension divides the Novel region into two: 'Crowded' designates an area 'where the optimum number of firms is rather small and the aggregate market size decreases if more competitors are added. This fits the case of high-prestige novelties: imitators dry up demand' (White 2003:138). Finally, in the 'Explosive' subregion with somewhat less substitutability profitability grows along with market revenue and the number of firms (White 2003: 138).

The conceptions of these three sociologists of the economic markets presented above both share some basic ideas and differ from each other. Most important, they emphasize the quality and (non)substitutability of products. Both Fligstein and White pay attention to the structure of the markets in a way typical of economic theories of imperfect competition. Fligstein's normal markets come close to what is often referred to as monopolistic competition. In addition, Fligstein emphasizes the importance of power constellations within the firm, whereas the quality of the products and the distinction between the demand for quality and quantity is central to White. Aspers's main idea, with his distinction between standard and status markets, is close to White's because status is one of the important factors that has an impact on the demand for quality. As Podolny (2005)—whose study will be presented in more detail in the following subchapter—has shown, it can often be difficult or almost impossible to know whether status depends on quality or vice versa. If the quality depends on status, what determines it and how can it be studied and measured?

As Zuckerman has critically pointed out, White's theoretical construction of a market order pays attention almost exclusively to the social relations between the producers and their internal status order. Its weakness is, therefore,

'inattention to the audience responsible for conferring legitimacy on actors and objects' (Zuckerman 1999: 1400). In other words, it does not take into account the role of the buyers and customers in determining the quality, or 'legitimacy', and value of the products. It is easy to admit that it is often not easy to study the social formation of the taste preferences and the following quality order of the consuming masses. To solve this problem in his own empirical study of stock markets, Zuckerman discusses what he calls the taste mediators or critics, who are the professional market analysts that 'replace consumers as the primary audience that determines the fate of products' (Zuckerman 1999: 1400; cf. Hirsch 1972 on taste mediators).

The next subchapter shall present and comment on some sociological theories that have seriously posed the question about product quality and taken the 'audience,' or the role of consumers and various mediators like critics and analysts, into account in determining the quality order. Thus they problematize what constitutes the quality of the products and services in the minds of the economic actors. By doing so, they pose a serious challenge to neoclassical economics by undermining its basic postulate about perfect knowledge and unambigious taste preferences among the consumers. They claim that the principal uncertainty concerning the quality of the goods and services sold and bought in the market is a normal condition rather than an exception.

Quality uncertainty and market devices

Carl Menger, one of the three founding fathers of the doctrine of marginal utilities in economics, argued that 'the measure of value is entirely subjective in nature, and for this reason a good can have great value to one economizing individual, little value at all to a third, depending upon the differences in their requirements and available amounts' (Menger 2007: 146). Menger's programmatic statement was directed against objectifying theories of value, above all the labor theory of value common in classical political economy. In fact, he did not present any solution to the problem of how an objective and binding market value or price could emerge from these numerous distinctive and subjective valuations of individual goods. Menger, in the tradition of classical political economy, referred to the use values of goods and needs and not to utilities. (See also Mäki & Sappinen 2011 about the differences between the conceptions of the early Marginalists.) He even ranked the needs in order of their importance and, like Marx before him, he did not regard their definition as problematic. To Menger, all human beings obviously had the same needs in the same order of importance or expediency.

Menger's theory has quite demanding presuppositions. As the editor of the English translation of his main work formulated it 'a minimum model meeting Menger's discussion [of the determination of the value of goods] requires, therefore … that the economizing individual of the table [Menger's numerical

tables] is able to rank his satisfactions but also assign indices to their relative degrees of importance. In other words, he is able to compare different satisfactions in terms of a homogenous unit of satisfaction' (Menger 2007: 128, note 8). Neoclassical economic theorists, Menger among them, 'assume that each individual is able to rank the various baskets of goods that are offered to him in ascending order of preference' (Orléan 2014: 38). All other things being equal, the individual will attempt to acquire the basket of goods that brings him the greatest satisfaction; he will maximize his utilities. This obviously presumes that the worth of things is fixed and their qualitative differences are all clear in the minds of the consumers. Otherwise it would not make sense to speak about utilities or marginal utilities either, even less about their maximization or optimization.

Unfortunately, the candidate for the role of the substance of value, adopted as standard in neoclassical economics, utility (or in its modern variant, individual preferences) raises almost as many problems. It presumes that the preferences are independent of each other and related neither to the preferences of other economic actors nor to the other preferences of the same individual. As Stephen D. Parsons (2014: 19–20) stated, 'they [neoclassical economists] assume that the ends are constant, are known with certainty from the start, and that economic agents can discover how to select the best means to satisfy them. Economic agents are thus assumed to be rational because the problems raised by time and uncertainty are not considered.' As Orléan (2014: 38, 44) pointed out, one should also keep in mind that the economic agents of neoclassical economics are completely ahistorical and asocial members living in a mass society of anonymous individuals, connected with each other only through economic exchange.

The model is founded on the presumption of complete information, one of the basic assumptions of neoclassical economy. Consumers and other market actors are presumed to be fully informed about the quality of goods, their own preferences, and the increase in the relative amount of satisfaction or utility that one more unit of any one commodity will bring to its consumer. Their purely subjective and private preferences are based on introspection. It is obvious that these conditions are valid only exceptionally in the real world of economic actors. A whole school of economics has dedicated its efforts to clarifying what imperfect information in a market means to economic theory, how it modifies the analyses of the market prices and market equilibrium, and in what ways it impacts the optimal distribution of economic resources. Similarly, information can be asymmetrical in the sense that one partner, usually the seller, has access to better—or 'perfect'—information than the buyer. As the argument proceeds, the buyer could in principle have access to perfect information too, but it would demand excessive use of time and/or money, increasing expenses. In some cases, they can also meet special obstacles which prevent the economic actors of acquiring reliable information. Economists tackle this problem by making some adjustments to the theory by introducing, for instance, the concept

of transaction costs referring to the extra expenses required to become fully informed about the conditions of the deal. The state of imperfect information is therefore usually regarded as either an exception or a modifying factor in the theories of market equilibrium. In this respect, they resemble the challenge posed by imperfect competition facing a theory that takes the state of perfect competition as its normal starting point.

A good and classical example of the impact of asymmetric information is the market for secondhand cars (Akerlof 1970). In order to function at all, they demand some kind of a relation of trust between the car dealers and their customers, which economists say explains, for instance, why people prefer to buy secondhand cars from people they know and not from professional car dealers or companies. 'Perfect' information about the technical quality of a car on sale could be available in principle but it is often very difficult, expensive, and time-consuming to find out. This is a common problem of secondhand cars: one could—nowadays such service is in fact standard—order a more or less total mechanical check of the car and have a more or less complete list of its benefits and failures, which could then be used to determine its price relative to other cars of the same model and make. This causes some extra costs but usually the price of the check-up is rather small compared to the price of the car. This presumes, however, that there is a limited—it does not matter principally how long in individual cases—list of technical factors that are considered to be relevant to be checked and clear enough technical standards to be used in evaluating the quality of the car. However, it is equally important that these standards are shared and acknowledged as relevant by all those involved. They are, in other words, part of the common culture of secondhand car markets more or less well-known and shared at least by 'regulars' and 'insiders.' Quite obviously, one cannot control for everything within the reasonable limits of economic resources and time, but only for the most relevant factors.

In the case of the secondhand car markets, as well as in the markets of new cars, there are well-proved and regular value standards that are widely in use, based on technical and professional expertise and engineering science, and recognized and taken for granted by both buyers and sellers. These standards might change from time to time, as is the case, for instance, with the increasing importance of the consumption of gas per mile, or emissions standards, or the addition of new technical devices to cars that have become a standard, such as air conditioning, automatic speed control, or a parking assistance, and the like. The same standards and criteria should be used in all or most reports or evaluations about all ordinary car models and brands. An interesting question, as far as the following argumentation is concerned, is to what extent such standards and criteria are considered to be objective and to what extent they are subjective or 'pure' social constructions. However limited or extensive they are, they suffice to fulfill their task as long as they are taken for granted and not questioned by those involved, as long as they are social conventions. In more recent times, a legal system of guaranteeing the rights of the buyer has been

created with the right of return of the object—after a limited time—after the purchase in case it would prove to be deficient. This system of guarantees is a good example of the fact that the constitution of markets presumes some normative or legal regulation, or alternatively, they have to be firmly embedded in other, more informal social ties or relations, like personal trust, which is practically impossible in modern mass markets. As Akerlof (1970: 499) recognized, 'numerous social institutions arise to counteract the effects of quality uncertainty.' This is, in other words, a prime example of the need of social embeddedness, either formal or informal, of economic relations and transactions for the constitution of markets that has been a basic truth of economic sociology since Granovetter's (1985) study—or as a matter of fact since the classics of sociology.

Economic sociologists who point out quality uncertainty to be typical of many, if not most, consumer goods, present a more serious challenge to the analysis of economic markets in neoclassical economics than the 'normal' economic theories of imperfect information. They claim that no amount of information can compensate for the quality uncertainty which 'plagues' products and services, and which makes their worth and value indeterminate and instable. Lucien Karpik (2010) and Joel M. Podolny (2005) are among the radical skeptics who do not postulate any natural connection between any 'real' or 'objective' quality of the objects and their perceived quality. The real or objective quality remains necessarily hidden or, more to the point, it does not make any sense to speak about it at all.

Podolny starts his reasoning by questioning the basic assumptions of economics: 'in the standard general equilibrium model of economics, the mechanism for matching and setting prices is what has come to be called the "Walrasian auctioneer"'. It is 'simply an analytic convenience, an assumption that is necessary for the general equilibrium model to make predictions about prices. However, since the Walrasian auctioneer does not exist in real markets, basic questions about the market's operation remain: What does determine who exchanges with whom? What are the determinants of the terms of trade?' (Podolny 2005: 3). As Podolny argues, economic sociologists have not yet developed any parsimonious account of the matching mechanism to serve as an alternative to the Walrasian actioneer (Podolny 2005: 3). Therefore, he looks for an alternative 'matching mechanism' in the social status of economic actors, which are again 'a consequence of the network of ties that are perceived to flow to the actor' (Podolny 2005: 5). In this respect, his approach resembles Aspers's and he does indeed develop his ideas following White's (1981: 518) suggestion that markets can be best understood 'as self producing social structures among specific cliques of firms and other actors who evolve roles from observations of each others' behavior.'

Podolny's impressive work consists of several empirical, historical case studies ranging from modern investment banking industry, Californian wine industry, and the spread of inventions, to the question of how the market leader's status has an impact on entry into a market. In addition, his work includes

a historical study of the conditions of exit from the primary securities market in 1920–1949. All these cases serve to test his basic claim that status matters in market competition in a wide variety of cases and historical conditions.

To Podolny, the reputation and the status of a firm are not the same. Reputation stems from the firm's past performance, and even though there might be a positive correlation between the firm's reputation and its status on the one hand and its reputation and product quality, on the other hand, these do not necessarily coincide and correlate. As Podolny (2005: 18) formulated it, 'the existence of reputation for a valued quality does not necessarily eliminate the uncertainty that market participants have about the presence or extent of that valued quality.' Even if status may thus be connected to a firm's previous performance, it can be and often is an independent indicator, or determinant, of the relative quality and worth of its products. The products of a firm are regarded as possessing higher quality because the firm or enterprise enjoys a high status in the market, and not vice versa. Similarly, a brand (a conception used widely in marketing) may be connected both to a firm's status and its reputation, but they are not reducible to it, nor vice versa. A Podolny (2005: 16) claimed, the concept of status is more fundamental than brand, because brand does not pay attention to any more fundamental social mechanisms behind them as, in contrast, status and reputation do. One could also add that brands are created by marketing, and actively promoted and kept up by it, whereas the firm as well as its products can have a high status and/or a good reputation independently of it.

To Podolny, status acts as a means—or has the function—of reducing market uncertainty. His basic axiom is as follows: the greater the market participants' uncertainty about the underlying quality of a producer and the producer's product, the more the market participants will rely on the producers' status to make inference about that quality' (Podolny 2005: 18). Consequently,

> the conception of status as a signal of quality rests on the following understanding: 1) Quality is not perfectly observable; 2) there is a loose, positive link between past manifestations of quality and present status; 3) status leaks through exchange and deference relations; and 4) potential exchange partners look to status to make inference about quality (Podolny 2005: 35).

How then is status determined if it is, in principle, at least partly independent of quality and precedes it, and if the market actors make inferences about quality via status and not vice versa? According to Podolny, it is a result of social ties and is thus related to or dependent on the status of other relevant market actors. Status can leak through social ties so that one's own status on the market can increase due to contacts to other actors who enjoy a high status. What in their turn determines their status remains, however, somewhat unclear in Podolny's impressive study. They can understandably vary from one

market to another but one could nevertheless identify some general principles of status formation.

In his empirical case studies, Podolny makes use of various indicators in determining the status of the market actors in order to analyze its impact on their economic performance as well as the performance of the markets. Podolny begins with the central point that there are cases when the quality of the goods or services is unknown and in which other factors, in this case the status of the producer or seller, becomes a decisive factor in drawing conclusions about the quality of the product or service. In a sense, one could even say that status can interfere with or even hide the real quality of the product. A more radical interpretation would be that status is not only a substitute for the 'real' quality but is in fact equal to quality. In other words, that is all there is to quality. Status is therefore not simply any indicator or reflection of any 'real' quality of goods but identical with it and its sole determinant.

Lucien Karpik's (2010: 10–12) concept of singularities is even more radical in its emphasis on quality uncertainty. He claims that in the market of singularities, purchases are made under principal quality uncertainty out of necessity. The quality of singularities remains principally ambiguous even for experts, and there are no technics to determine or measure them. Therefore, they do not satisfy the basic presumption of the neoclassical economy according to which, in a standard market, products are known, or at least knowable, before their purchase and the only problem that can possibly arise is the lack of information. However, the lack of information is only a practical, even though at times unavoidable or irreparable, restriction, and not a principal one. In some cases, it can be remedied by legal regulation of the markets, like in the case of second-hand cars, or by using some technical instruments of measurement. In the case of 'real' singularities, this can never be the cure because they suffer from a much more principal quality uncertainty. It cannot be remedied with any such technical or legal means. Their markets are in need of completely different social mechanisms and guarantees of quality and its 'certification' (of which the producer's status can be one, but only one among several possible mechanisms).

What then are typical singularities, according to Karpik? Works of art, or more generally all kinds of cultural products, are singularities, but so are personalized services. Contrary to what is common, Karpik (2010: 17–18) counts not only unique works or performances of art, like original paintings, drawings, and sculptures, or such singular events as unique artistic performances, dinners in fine restaurants, and the like as singularities; he also includes all kinds of reproduced and reproducible cultural goods, such as movies, books, discs, and so on. Therefore, he prefers to call them singularities and not unique, or authentic, objects (of art). He does not follow the more common distinction between authentic and unique objects of art on the one hand and ('mechanically') reproduced objects of art on the other hand, a distinction well-known from Walter Benjamin's (1968 [1935]) classic essay about the loss of the 'aura' of art that has become a regular point of reference in later critical studies of

commercial, mass culture. To Karpik, not only are such consumer goods as vintage wines—which are arguably in between these two types, authentic works of art and reproduced works of art—good examples of singularities but so are printed books, movies, and CDs. In Karpik's understanding, it does not matter whether they are unique or how many copies they are made, as long as their symbolic quality and, consequently, their capacity to accommodate a principally indefinite number of equally relevant and valid interpretations, is preserved. This is the case with all kinds of cultural objects and personal services. One can also reasonably raise the question as to what extent most, if not all, consumer goods and personal services share at least some of the characteristics of singularity in a developed economy of consumer goods that abounds in novelties and where design, fashion, advertising, and marketing are all an integral part of almost any market.

Even though Olav Velthuis's empirical study of art markets in the Netherlands and USA (2005), to which also Karpik (2010: 222) refers, deals explicitly with 'authentic' art in the narrow sense of the term, its results have relevance to Karpik's argumentation in showing what consequences quality uncertainty can have to the markets and market actors. Velthuis's (2005: 80) research question is a concrete one: Why are contemporary and new works of art not sold on auction, as presumed by economic theory, which predicts that unique, high-value goods like art, for which clear standards of value are lacking, tend to be priced by means of auctions? This is not the case normally. Instead, art galleries and gallerists set and regulate their prices by using mostly non-explicit pricing scripts, which pay attention to the previous price history of the artist's works and the prices paid for 'similar works in size and style of similar artists with comparable résume, credential, and background' (Velthuis 2005: 124–125).[2] The gallerists tend to follow a rule according to which one should begin pricing the works of a previously unknown artist as low as is reasonable and then, slowly, increase them with the increasing credentials and résumé of the artist who belongs to their 'stable.' Even though demand has, according to Velthuis, an impact on pricing as well, the essential rule is never to have to lower the prices paid for the latest works of an artist compared to his or her previous products. In determining the prices, the gallerist does not try to maximize their sales or their short-term profits, but rather creates a career path for the artist, which will presumably produce a steadier flow of long-term profits for the gallerist by keeping the production and the amount of the supply of the artist's works under control. In addition, the regular price increases from one exhibition to the next should be quite modest. (Velthuis 2005: 124–126). Velthuis summarized his results as follows: 'For price increases, three different rules exist: a rule based on demand, on time, and on reputation. For all three rules, the amount of the increases varies, but usually equals 10 to 20 per cent of the most recent price level' (Velthuis 2005: 127).

The situation is completely different in the secondary market of art, in selling and buying older and classical works of art. Their quality uncertainty has

already been reduced and their 'economic and artistic value is already established when works appear on the secondary market since their art historical standing and economic worth have been partially decided upon' (Velthuis 2005: 82). Contrary to what one could learn from economic theory, auctions are the primary mechanism of price setting on secondary art market. Consequently, their prices and price-setting follow different mechanisms compared to primary art markets. Art works that are unique and in principle incomparable, as Jevons readily admitted, 'do not admit of the conception of more or less' (cit. in Velthuis 2005: 98). All economists from Ricardo to Jevons came to the conclusion that the prices of rare and irreproducible goods such as pieces of authentic art have no real explanation. They are an exception and beyond ordinary economic theory (Velthuis 2005: 98).[3] Their price determination most definitely does not follow the standard rules of marginal utility. This is shown concretely in Velthuis's extensive study of the art markets. This does not mean that the determination of their prices would be completely arbitrary or prevent their prices to be explored by carefully analyzing the social structure of their market.

The determination of the prices of unique works of art is not such a serious practical problem to economics because their markets are obviously not very extensive compared with many 'standard' consumer goods, other cultural goods included. The question reaches quite different proportions in practice if, following Karpik, we widen the concept of singularities to cover a much broader range of cultural objects or personal services, thus extending the same problem of principal quality uncertainty and incommensurability to a much wider range of objects than authentic works of art. Then the dividing line between standard goods and cultural goods both drastically narrows the scope of standard goods as well as becomes more blurred.[4]

What makes then an object singular, after all? According to Karpik (2010: 13), the three main criteria of the singularity of any product or service are their 1) quality uncertainty, 2) multi-dimensionality, and 3) incommensurability. Their quality uncertainty is a consequence of their multidimensionality, which makes them difficult to compare. His basic claim is that any market of singularities would end up in a market failure without the help of market devices and regimes of coordination, which allow for, at least, some kind evaluation of their quality in making them commensurable. The peculiarity of any market of singularities is that the goals of economic action cannot be set in advance because the consumer constructs them first along with his commitment. (Karpik 2010: 71–71). In this sense, it comes close to the idea presented in the studies of modern consumption, according to which the consumers are always co-producers because consumer goods achieve their real meaning and final value first in their process of consumption (Ritzer & Jurgenson 2010). One and the same commodity can thus have or achieve multiple meanings and values. Such a market cannot possibly fulfill the basic axiom of fixed and known preferences central to standard economic theory.[5]

As Karpik argues, due to their multidimensionality and incommensurability the determination of the relative worth of singularities demands the use of judgment power. According to Karpik (2010:42), a judgment, in contrast to a decision, is 'a synthetic act which combines a plurality of heterogenous and variably weighted criteria.' As such, it takes the multidimensionality of its objects into account and acknowledges that the whole is more than its parts. In contrast to decisions that can be based on definite criteria or refer to some generalized value standards, a judgment is always a qualitative choice and open to re-evaluation and further reflections. It is not necessarily stable, either. Furthermore, it can combine both aesthetic and ethical evaluations and knowledge. Art critics provide a clear and good example of the exercise of aesthetic taste in judging the beauty of an object of art. Karpik is essentially claiming that all singularities are like objects of art and, in the sense that their 'beauty,' worth or value can at best be appreciated by using aesthetic judgments, which in their turn are subjective and can never be unambiguously measured or 'weighted' on the same scale.

Lucien Karpik's characterization of the operation of the judgment of taste brings to one's mind Immanuel Kant's famous concept of the 'pure' aesthetic taste and judgment power in his third Critique, the *Critique of Judgement* (1914 [1790]). In his analysis of singularities, Karpik faced and was presumably well aware of the same dilemma as Kant in formulating his famous antinomy of taste. As Kant argued, it is right to presume that aesthetic taste and sensual taste resemble each other in being subjective. They are both based on the exercise of one's own taste alone. They do not—and cannot possibly—refer to any universal rules or standards of beauty but rely instead on the judgment power of every individual person. At the same time, the real aesthetic judgment of taste differs principally from purely sensual and subjective judgments of taste by always claiming universal validity. Otherwise it would not be, according to Kant, a real judgment of aesthetic taste at all, but concern only sensual pleasure. However, a problem arises because these two equally legitimate criteria, subjectivity and universal validity, cannot be realized at the same time. A judgment cannot possibly claim to be both subjective and objectively binding or universally valid. This is Kant's famous antinomy of taste, in his reasoning inbuilt into the very aesthetic judgment of taste.

To Kant, this conceptually or logically unsolvable antinomy was important above all because it concretely showed the principal divide between pure sensual perceptions and conceptual knowledge by placing aesthetic judgments as a necessary, even if highly unstable, bridge between them. By characterizing beautiful objects as having a form of purposiveness without any purpose (zweckmässigkeit ohne Zweck), Kant introduced his aesthetic judgment as an intermediate epistemological operation that creates non-conceptual first-hand order among the (in principle) always chaotic multitude of our sensory perceptions. It probes its way through making preliminary suggestions how to give some kind of contours to the object of our perception (see Gruyer 1997).

In purporting to bridge the divide between economic theory and concrete reality, Karpik's markets of the singularities face a problem similar to the one facing Kant in his third Critique: how can one judge the relative merits of an object and compare it with others without submitting it to some general rule or reducing it to some one-dimensional standard? As Frank (1992: 15) formulated it concisely, in appreciating something aesthetically it is as if one applied a rule that one cannot possibly instantiate. At first glance, it would seem that is exactly what the economic theory claims that the 'invisible hand' of the market does. It creates out of a multitude of subjective preferences of the individual market actors, as if crystallizing, at each time to each product an objective, commonly shared value in the form of a valid market price. However, the same question of the character or validity of the individual judgments as in the case of Kant's 'real' judgments of beauty is actualized in this case, even if in a modified form. The operation of the invisible hand presumes that the market actors know or can evaluate, before each market transaction, the relative worth or utility of the goods on offer to them in the market. This raises a more basic question: how does an individual consumer know the relative worth or value of an object or a service—and how can he or she have a fixed set of preferences? How do they know that they made the right choice? Even in such simple cases where one definitely prefers an apple to an orange, the conditions of the acts of their consumption would only rarely, or hardly ever, be the same. This is reminiscent of the problem also recognized in economics that one and the same object can have different values depending on the 'basket' or set of consumer goods it is a part of, as well as on the order of their enjoyment. Objects of consumption also often have multiple meanings due to all kinds of circumstances, and therefore the problem of quality uncertainty is even more serious.

Karpik's (2010: 44–52) solution to this dilemma of quality uncertainty plaguing the markets of singularities are market devices and regimes of coordination. Without them the market of singularities would not function at all, and they would collapse. Depending on the particular devices, the markets can be more or less stable. Good and typical examples of such devices are restaurant or wine guides (the best known among them are Michelin's red restaurant guidebooks and Harper's wine guide), top ten or top twenty lists in popular music, or literary prizes and art awards. Despite their obvious dissimilarities—they vary from published sales figures to highly qualified expert judgments—they all contribute in their own way to the formation of a collective taste. In judging the value of an object or a service, one can also rely on or get support from the knowledge of experts in the particular field, such as art and movie critics. These and similar devices help the consumer to choose from among several alternatives even under the conditions of principal quality uncertainty. Due to the specific nature of such singularities, a consumer would otherwise have to rely on his or her own taste alone and could never be sure whether he or she had made the best choice. Increase in available information would not solve the problem. Quite on the contrary, it can make the situation even more complicated.

Without any such judgment devices to act as guarantees of right or 'good taste' the consumer would be in a permanent state of uncertainty and markets of singularities could stop functioning. It is essential to understand that even many such seemingly objective market devices and taste guides as rankings and lists are in the end the result of individual or collective judgments of taste. Several of Karpik's devices are based on the judgment of taste mediators, critics, and analysts (cf. Zuckerman 1999); others rely more directly on the more or less spontaneous judgments of the consuming masses.

Grant Blank's (2007) detailed, empirical study of two different systems of reviews, restaurant guides on the one hand and reviews of statistical software on the other hand, illuminates the difference between aesthetic judgments and, at least seemingly, more objective technical evaluations. Grant names the first ones connoisseurial reviews and the second ones procedural reviews. Whereas procedural reviews use performance testing with the help of some technical instruments of measurement and compile quality indices, connoisseurial reviewers use their own qualified judgment. There is no doubt that even many technical reviews are social constructs in the sense that the set of dimensions or factors tested is always to some extent arbitrary and socially 'agreed upon.' It would, in principle, always be possible to think of other criteria that might be equally important and good in the opinion of some market actors. However, as long as they are recognized as valid, authorized by experts, and shared by all or at least by the majority of the market actors, they fulfill their function as technical or procedural market devices. Even though the reviews in restaurant guides are standardized too—the reviewers are asked to evaluate their eating experience using a predetermined set of dimensions with a common scale—the reviewers are expected to rely on their own subjective observations and evaluations. In both cases, restaurant guides and reviews of statistical software, the reviewers can be specialized experts who have at least some qualifications and training in their field of expertise. In the latter case, their technical expert knowledge serves the interests of potential customers by producing and compiling objective information that is to some extent independent of the individual tester and available in principle to others, but the achievement of which would often be very time-consuming and expensive, or practically impossible for a lay consumer.

The difference between subjective reviews based on judgments of taste and objective reviews based on technical instruments of testing is, of course, a gradual one and historically fleeting as shown, for instance, by the attempts to make wine reviews more standardized and scientific. The process of the 'scientification' of wine tasting started in California in the 1950s as an important step in creating a new kind of a market to its then internationally little-known and less valued wines (see Shapin 2016 and Phillips 2016). The fact that oenology, or the science of winemaking, became part of the university curriculum in California as well as in France and in many other wine-producing countries, including Australia and New Zealand, certainly also helped to legitimize this new, more

scientific and standardized judgment device. Wine guides, according to Karpik are 'devoted to the celebration of incommensurable individualities and to the demarcation of incomparable universes of taste turn into one-dimensional arrangements' (2011: 139) by giving points or stars to wines. It is not to be denied that they employ also substantial devices in the—often highly poetic and metaphorical—commentaries accompanying each selected and recommended wine which cannot [or should not] be separated from ratings. The more restrictive—or 'one-dimensional'—a guide's evaluations, the better suited it is to laypersons, whereas the more 'extensive' it is, the better suited to connoisseurs (Karpik 2010: 140).

One could imagine that simply tasting different wines would allow one to make the right choice among them and to develop a list of preferences of one's own but, as Karpik points out,

> the layman is usually not looking for the wine he likes but for the wine that experts say he is supposed to like. With time, practice and experience, some do manage to acquire a sufficient repertory of 'good' wines and, from then on, are no longer game for the adventure they know to be costly and whose outcome is unpredictable. That outcome accounts for the often observed but largely unexplained fact that, for fine wines, purchases are often guided by habit (2010: 142).

This does not dismiss the ever-present possibility of doubt. Who knows, some wines might be even better. In addition, the market abounds with new wine varieties and brands all the time. How can I know that I have not missed something valuable? As Beckert et al. (2017) argue, wine drinkers have great difficulties in distinguishing wines and their quality based on their objective sensory characteristics.

Increasing one's knowledge of new wines does not necessarily solve the problem either, since 'rapid production of new knowledge, when not balanced by equivalent training, endangers a cognitive pauperization of those [wine] buyers whose competence is the most fragile' (Karpik 2010: 144). This is the same dilemma that, according to Bourdieu (1984), people with relatively little cultural capital regularly face in other fields of art and culture too. As soon as they have, with great effort and often with some expense, reached a certain higher level of cultural knowledge and competence the standards of the taste of the cultural elite have escaped beyond their reach. In other words, there is no other way out of this dilemma than to become a real connoisseur and dedicate one's whole life, and often money too, for tasting wines—one should not start too late in life—a solution that is obviously open only to a selected few and accompanied certainly with other kinds of problems. The other options are following the advice of a wine guides and 'wine critics' or being a traditional consumer and sticking to one's old habit and drinking the same old 'good' wine over and over again. This basic uncertainty plaguing our aesthetic judgments

and freedom of choice has contributed to the weakening position of French wine industry in the global market with a lot of new wine lovers. The practice of branding and offering a limited number of wines with a predictable outcome and little surprise more typical of the wine producers of the New World seems to be the winning concept in wine markets, especially with new consumers in the increasingly global wine market (with the exception of very high-status wines; Karpik 2010: 145).

This same dilemma which plagues Karpik's wine drinkers and which he describes so elegantly does not leave other consumers in peace either, at least if we are to believe other theoreticians of modern consumption. In the words of Colin Campbell (1987), the modern consumer is a hedonist who can never be satisfied, always expecting eagerly and impatiently for something new and better to come. Gerhard Schulze's (1992) characterization of the modern society as 'Erlebnisgesellschaft,' a society of inner experiences, captures the same dilemma of principal quality uncertainty. If consumption is not about the satisfaction of one's simple needs as much as about the search for new exciting experiences, it becomes difficult, if not almost impossible, to judge whether one has succeeded in making the optimal choices.

Critics and guides are by no means the only market devices identified and analyzed by Karpik. According to him (Karpik 2010: 44–49), there are five principal judgment devices, which cover a wide variety of cases:

1. personal networks;
2. appellations like quality labels, professional titles, product brands;
3. cicerones, critics or guides that offer evaluations of singularities;
4. rankings;
5. confluences or techniques that channel buyers to make the "right" choices (cf. organization of shelves etc. in a shopping mall.)

Strictly speaking, one can question whether Karpik's last device, confluences, really counts as a judgment device; these are all based on judgments of taste of either a bigger and anonymous group of laymen or the narrower circle of experts. Confluences are, on the contrary, an external technique, arrangement, or technical procedure that guides—as if naturally and almost unnoticed—the customer to select the right way through a supermarket and bring him or her to the right objects to buy. People are not really asked to use their own judgment but rather expected, like a mouse in a maze, to follow the route constructed in advance by the marketing experts. Such technical devices have become more recently one of the favorite objects of study in behavioral economics, referred to as nudging, in its well-intended efforts to help people choose wisely but without too much effort, for instance, in terms of sustainability or health (see Sunstein & Thaler 2008). There is no doubt that, as their advocates claim, confluences can be of service to other than purely commercial purposes. Personal networks, or more concretely advice and recommendations from one's personal

associates, peers or acquaintances, are in a sense at the other end of devices compared to confluences. They are particularly common in evaluating and selecting personal services, such as legal advice or medical help, but can also guide one's decisions in what to buy. They are a traditional—one could say an ancient—market device. Karpik does not develop his idea of personal networks further into the direction of more refined network analysis, but Podolny's status markets could very well be regarded as an example of such regimes of coordination, which can be based on personal as well as impersonal networks. They can include also organizations such as other firms.

Karpik's second device in the list, appellations, such as quality labels, professional titles, or product brands, are signs and guarantees of quality, and effective as such, if taken seriously by those concerned. In the last instance, they are based on the more or less professional judgments of experts of one kind or another and, in this sense, they come close to cicerones, critics, or guidebooks that offer their evaluations of singularities. Compared to these, however, they give more straightforward and simplified advice regarding what to buy by compressing the complicated quality review into one easily read symbol or number. Rankings, in their turn, can also be compiled by professional or semiprofessional critics, but in Karpik's examples, they are typically based either directly on sales statistics or customers' opinions.

All these devices, even in the case when the result is condensed into a simple chart like the top ten or twenty lists of music or an award like 'the book of the year' or 'Nobel Prize Winner,' are based on the consumers', critics', or other kind of experts' judgments of taste. As such, they cannot be justified by referring to some objective standards or criteria of the relative goodness of the goods or services. As Velthuis has shown in his analysis of the primary art market, some rules of thumb or, as he calls them, standard scripts are regularly used in simplifying the process of reducing the multidimensionality of the object and unifying the process of evaluation. In their study of the Dutch book markets, Franssen and Velthuis (2016: 366) discovered that the publishers rely on genre as a judgment device in pricing their products. The books in higher and more prestigious genres are as a rule published in a bigger format. They can be priced higher because consumers expect bigger books to be more expensive. The presumed higher quality of some genres is reflected in higher prices but interestingly, this takes place via the quite concrete and visible materiality of the products (Franssen and Velthuis 2016: 378).

In some cases, which we shall discuss in more detail later on, the devices undoubtedly leave quite limited autonomy to the consumer, for instance, the reader of books or the viewer of movies, and it looks as though they have, in fact, delegated their judgment power to experts, critics, or the like, or even marketing offices. But even in such cases, they do not oblige anyone to follow their advice or example. Rankings, in their turn, are based on the choices of the taste of numerous anonymous equals. Therefore, they seem to crystallize, almost mystically, the myriad of individual tastes into a single, common, or, if you like,

mass taste, reminiscent of the cultural power of the anonymous masses that worried many aristocratic critics of modern culture. The 'tyranny of fashion,' which many cultivated citizens feared, is typically such a mass phenomenon.

Quality labels differ from the labels of environmentally friendly products (green or sustainable). In both cases, the individual consumer is plagued by a principal quality uncertainty but whereas the environmentally friendly or sustainable products can, at least in principle, be distinguished using some objective technical criteria, the first ones, quality labels, usually presume the exercise of judgment of taste.[6] Judgment is an art of doing that which one learns by practice and not decision making following a logical process of reasoning using definite criteria of goodness. The subjective nature of judgments does not, however, mean that one could not give good reasons for one's choices or challenge others'. After all, one does dispute over matters of taste quite often. But just as importantly, judgment devices do guide, and to some degree even bind, the individual's choices if they are taken seriously by smaller of bigger groups of people. The degree of freedom left to the individual actor, say reader or viewer, or wine or music lover, varies from one field of consumption to another, one group of consumers to another. The recommendations of guidebooks or best-seller lists can be taken more seriously, with a greater degree of a critical distance, or with a skeptical attitude. Not everyone has to take them for granted or seriously. It is enough if at least some do. In this respect, they can be compared with art or literary reviews published in journals or newspapers.

Citation indexes of scientific articles and impact factors widely used in the world of universities today are a good example of market devices (Karpik 2011). They regularly count citations and impact points of scientific publications in ranking scientific papers, academic researchers, and scientific institutions; these offer a good example of the functioning and use of market devices as well as some of the problems involved. As Espeland and Sauder (2007) showed in their interesting empirical study on the ranking of American law schools by quantifying the distinctions, which are always principally qualitative, the rankings and indexes often tend to magnify rather minor and as such rather unimportant differences. This is typical in such pseudo-markets as research and education where rankings of universities and citation indexes have become standard tools of operation. It gives quite a different impression to say, for instance, according to such and such criteria, the research output of a university is slightly better than that of another university's than to claim that they occupy, say, the 7th versus the 15th position in the list of the national or international university ranking. It is equally problematic that such rankings tend to direct the market actors, producers as well as consumers, into certain, predestined paths, thus standardizing their products. This can often be dysfunctional from the point of view of some other, more important or fundamental goals of the institutions or organizations in question, like creativity and freedom of thought in the academia. As Karpik pointed out, it is almost paradoxical that devices used in evaluating scientific output and academic performance tend

to be less advanced than, for instance, Michelin restaurant guides or Harper's Wine Trade Guide, which give a more nuanced and sensitive evaluation of the quality of their goods and services, taking their multidimensionality and quality uncertainty more seriously into account.

The relatively new devices of evaluating academic performance concretely prove how they constitute a new kind of a market for science and research. The new academic pseudo-markets offer a radically different mechanism than the old collegial bodies at the universities and scientific institutions which consisted of one's peers with their primarily 'connoisseurial' evaluations. As the evaluation of research and universities shows, market devices can also be highly disputed and not at all recognized by all actors involved in the market. If this were the case in a private market of consumer goods, it would either be dysfunctional and threaten the stability of the market or lead to the voluntary exclusion of some dissidents or market segments out of the particular market and possibly to the establishment of new kind of markets. The segmentation of movie markets into art films and popular entertainment offers a classical example. Since the market of scientific papers or academic teaching is in most countries dominated by one financial actor, the ministry of education, it can dictate any market device it prefers to use in evaluating the productivity of its input. This can lead to a situation in which some market actors, in this case individual researchers or university teachers, do not recognize the legitimacy of this institution and can try to preserve or create other, competing devices. The at least partially successful attempt at making the quality assessment of wines more scientific and objective, initiated after the Second World War in the Californian wine industry and which quite explicitly aimed at standardizing wine tasting and judgments of quality by demanding that they should take place under strictly controlled, laboratory-like conditions—the standardization of the vocabulary for describing the experience of tasting was an essential part of this process—is a good example of a similar development of standardization in a market dominated by private economic actors (Shapin 2016 and Phillips 2016). The scientification of wine tasting was successful partly because the wine producers had an interest in better regulating their mutual market relations and coping with international competition.

As one can easily see, Anand's and Peterson's (2000: 270) market information regimes are similar to Karpik's market devices. They have the same function in reducing quality uncertainty and creating order in a market. They do not, however, refer to the singularity of the products—musical recordings in their case—nor to their principal quality uncertainty. They also do not problematize the nature and role of the judgments of quality. In addition, they look at the markets more from the point of view of suppliers who are in need of market information in order to refine their market strategies and coordinate their actions; they studied musical recordings recorded historically in two different ways. Without explicitly referring to the problem of the constitution of

markets, Anand and Peterson pose the question about the processes through which an aggregation of organizations comes 'to constitute a recognized area of institutional life.' According to them,

> competitive organizations need to reduce uncertainty about market. … In order to reduce market uncertainty, organizations make sense of their markets not only by generalizing from their direct experience of it, but also by relying on information on 'market' activity. While it is often convenient for field participants to presume that the field is given by nature …We assume that cognition of markets occurs through the generation, distribution, and interpretation of a web of information about activity in the market (Anand & Peterson 2000: 271).

To Anand and Peterson, market information is the prime source by which producers in competitive fields make sense of their actions and those of their consumers, rivals, and suppliers that make up the market (Anand & Peterson 2000: 271). In their opinion, all information regimes have three basic characteristics: 'First, they provide the attention focus for an organizational field. Second, they essentially serve to help participants make sense of market activity within the field. Finally, market information regimes are socially and politically constructed and are hence fraught with biases and assumptions that are largely taken for granted' (Anand & Peterson 2000: 271). They are social constructions, and could as such, in principle, be otherwise. Therefore Anand and Peterson refer to the process of the constitution of information regimes as political.

In their empirical study, they analyze an interesting and well-established market information regime that has been decisive for a long time in organizing the market for musical recordings. More precisely, their historical example concerns the development of charts about top-selling recorded music. Whereas Billboard's charts combined, in one ranking, several independent components including radio airplay, jukebox plays, and recorded sales, the new SoundScan charts (introduced in the 1980s) are counted directly from cash register sales (Anand & Peterson 2000: 275). Therefore, these two charts differ radically in their source and type of information: whereas the respondents to the old panel survey were asked to check 'top,' 'strong,' and 'good' sellers, 'SoundScan gathers absolute figures on sales, that is, a precise count of actual number of units sold at retail outlets linked to the system. SoundScan could provide a wider range of detailed information' (Anand & Peterson 2000: 279). Nevertheless, they fulfill essentially the same function. However, the difference between these charts was not only technical because they did in fact produce slightly different results, for instance as far as the popularity of country music and the career of new albums in the lists was concerned, and had a visible impact on the strategies of the market actors, producers, and sellers of recordings.

Regimes of market coordination

Karpik's analysis of the constitution of the markets of singularities is quite advanced. He distinguishes four regimes of market coordination, which in their turn are founded on one or several market devices presented before (Karpik 2010: 131–179). These market coordínation regimes are 1) the authenticity regime; 2) the mega regime; 3) the expert opinion regime; and 4) the common opinion regime.

The following six quite extensive and detailed characteristics define the authenticity regime:

> 1) a large diversity of product names and tastes as well as of consumers' tastes or logics of action, along with the threats rising from an opaque market; 2) the central position occupied by substantial impersonal judgment devices acting through competitive struggles and whose credible knowledge will orient consumers' action all the more because they possess a high degree of symbolic authority; 3) the active presence of trust/belief, which is all the more necessary for consumer choice and market continuity because knowledge should be credible; 4) varied forms of adjustment, which express the various forms of encounter between the tastes proposed by the devices, the tastes of the products, and the forms of consumer commitment; 5) a pervasive model of originality that reveals its presence, within financial constraints, mainly by the primacy of quality competition over price competition and by the relative adequacy of the regime components; 6) the diversity of the efficiency of the coordination regime according to the effectiveness of the judgment devices, consumer competence, and forms of commitment (Karpik 2010: 146–147).

The markets of art films and vintage wines are typical examples of the authenticity regime. The classical case of authentic and unique art works falls under this regime too, but it is one example among others. Some of the goods sold can be rare, some reproduced in greater numbers, and some can be quite unique, such as individual paintings or other works of art (Karpik 2010: 135). In all cases, 'concrete markets in the authenticity regime are defined by the exacting encounter of the products' and clients' tastes, mediated by the tastes conveyed by the judgement devices' (Karpik 2010: 135). The market of fine wines, with its highly developed and established wine guides and critics—which had a real boom in the 1970s and 1980s—is a textbook example of a market in authenticity regime. At the same time this market, as well as the parallel market of fine dining, reveals the paradoxical nature of such guides. Because of being an extreme example, the fine-wine guides, in Karpik's opinion, in addition to being rather well-known in their basic features, clearly show the characteristics and problems typical of authenticity regimes even more generally. They can, in fact, be seen in other regimes too.

Mega regimes are next on Karpik's list. They differ from authenticity regimes in many respects. Films with expensive production value with wide distribution and bestsellers of all kinds—books, discs, etc.—are typical in mega regimes. Cultural prizes and nominations, like the best book of the year or this year's newcomer, or simply the top sales figures, 'everyone has seen or read it,' help to create order of quality in them. In common opinion regimes, in many ways similar to mega regimes, top 10 or top 20 record charts or book lists direct the ordinary listener's or reader's taste towards the same choices and preferences.

The different regimes can operate effectively in markets that differ radically from each other as far as the target of evaluation, the size of the market, its profit orientation, and the main or basic principle of action are concerned. Markets with authenticity regimes operate with specific products; they are as a rule relatively small, aim at moderate profits, and are inspired by the logic of originality. Quality competition dominates over price competition, as we have seen in the case of primary art markets. Mega regimes also operate with specific products and are elevated by the logic of originality. Their markets are large and aim at high and fast profits. Furthermore, massive use of market tools, massive budgets of marketing, and advertising leave little room for viewer or reader autonomy. The expert opinion regime operates with rankings of products of the same kind and not simply by evaluating specific, individual products; markets tend to be small and they aim at moderate profit. The spirit of these markets is expert logic. Typically in these markets, very small differences are magnified by being transformed into differences in rank. A part—often a large part—of the budget is targeted to financing the competition itself.

Finally, the common opinion regime operates with rankings (typically bestseller lists) in large markets, meaning high profits, and it is elevated by the logic of conformity. It is the most simple of all the four coordination regimes: one man—or rather: one purchase—one vote. Popular music or TV program competitions where listeners or viewers can 'vote' for their favorite by calling a number are only a slightly less direct or commercial way or expressing one's opinion than simply buying the product (one has often to pay for one's call and vote).

As these examples show, coordination regimes operate with their market devices in a wide variety of markets, both small and big. They constitute these markets, which could hardly operate at all without them. In practice, many markets of singularities are hybrids consisting of two or more coordination regimes. In some cases it can also be a question of two or more separate markets in the same field of art or culture, each of which operates with its one coordination regime. Such is the case, for instance, in film industry where the art film market largely follows the authenticity and expert regimes, whereas the popular movie markets follow the mega regime. The introduction and wide spread of the internet in the world of consumption offers new technical devices, for example in creating a common opinion among laypersons, experts, or both in no time at all. They include much wider potential audiences and other customers than ever

before, but in principle, they operate with the same market devices as before. A restaurant evaluation based on the professional judgment of experts on the internet or the points of quality (or stars) given by thousands of customers in, say, a trip advisor can complete and compete with each other, but they are both variants of well-tested and historically firmly established judgment devices. Nevertheless, they do give an instantaneous 'voice' to ordinary consumers as is most clearly the case with blogs that, by offering advice and opinions of taste on a wide variety of topics, sometimes compete successfully with professional critics and trendsetters and can challenge their 'verdicts.'

Although the regimes of coordination discussed briefly above all operate with impersonal devices, personal devices play an important role in many markets, as Karpik (2010: 181–202) has also shown. They are typical in the markets of professional services. Karpik divides these each into two groups: network regimes and professional coordination regimes. Personal networks, which spread information and opinions of taste by word of mouth are an old type of regime that has operated as long as some markets of goods or services have existed. In the age of the internet, however, they tend to become bigger and more anonymous. Personal networks are quite essential in more complicated and professional personal services, such as those of lawyers,[7] medical doctors, and dentists, among others. A patient or a client cannot possibly be certain about the difference in the quality of the services of two equally qualified medical doctors or attorneys of law. The best alternative is often to follow the advice of one's personal networks or make the choice by paying attention to such rather secondary factors as the pleasant appearance, the nice office in a good location, or the kind behavior of the person who sells these services. The other alternative to coordinate personal services, the opinion of the professional experts, results from the unequal distribution of knowledge and power between professionals and lay consumers. The role of the professionals is in the last instance based on trust in their superior knowledge and the presumed impartiality of their professional opinion that has traditionally stemmed from their dedication to the common good and guaranteed by the control of their peers (cf. the Hippocratic oath in the medical profession). As Karpik points out, an institution of professional opinion has both a public and a private variant. The public variant follows from the legally regulated position of a civil servant or their organizations, such as the public and professional administration of health care. The second, private instance, non-governmental professional organizations, such as the union of advocates or the society of the doctors of medicine, can also exercise quality control and distribute information about the services of their members.

By no means belittling the importance of these kinds of coordination regimes based on personal networks and the practical economic and theoretical importance of these economic markets, for the sake of simplifying the task, the following chapter will concentrate on the social mechanisms behind the regimes in the markets coordinated by impersonal devices. As we have seen, Karpik

describes in detail the character and functioning of his market devices and regimes of coordination and, in addition, draws interesting conclusions about their effects on the market performance or orientation of the economic actors. He does not, however, extensively discuss and analyze the social mechanisms that lie behind these devices and regimes and that first make them possible at all. After all, what are the social mechanisms that make the buyers and customers ready to orient their actions according to the advice or opinion offered by the devices that constitute the coordination regimes and make the economic markets of singularities possible, as if presumed to be 'natural facts'? Or how do the opinion leaders and trendsetters come to share a common taste? In the end, this question amounts to how a common taste is distilled in a modern society from the myriad of individual tastes.

Market regimes and the price formation

The market regimes and formations of taste obviously have an impact on the formation of prices. For instance, contrary to standard markets, in status markets increasing prices can lead to increasing demand, and not vice versa. The high price can, for instance, become a sign of higher status and quality, but not vice versa. The peculiar structure of monetary rewards observable in the entertainment business and professional sports, such as football and ice hockey, in which some top actors or players can earn a hundred times more than their less fortunate colleagues, offer another good example of the effect of the quality uncertainty on prices (Karpik 2010: 221; Adler 1985). It is indeed difficult to think that the differences in their talents and the quality of their performances would be a direct match to their exceptionally high salaries or rewards. Their quality is thought to be high because they earn a lot, and not vice versa. These preliminary conclusions concerning price formation to be drawn from the analyses of the specific markets are interesting and important; one can also draw some more general conclusions or formulate some theorems of the impact on price formation of the market devices in various market regimes. In general, one could claim that the markets characterized by one or another type of quality uncertainty tend to be monopolistic. The application of market devices makes their products to a lesser or greater degree non-substitutable or at least restricts or limits their substitution. If only one single firm had the exclusive right to sell their products, it would have a complete monopoly on the market. However, even then some customers could perhaps switch to competitors' somewhat different but 'close enough' products. It depends on how similar and substitutable the products are in the minds of the consumers and on their relative prices.

In some cases, a producer or a couple of them may enjoy an almost perfect monopolistic position in the markets of singularities, when, for instance, only their goods happen to be in fashion. In the case of the fashion industry, the exclusive position does not usually last long and comes to an end once the

competitors learn to imitate the new fashion, gradually turning the market into something resembling a standard market, until a new fashion emerges. The demand for fashionable clothes, as well as their prices, tend to be constantly fluctuating. In the market of fine wines in France, the same producers can keep up their leading position for a long time, partly guaranteed by formal and in some cases legal regulations. However, even they face potential competition from those below them on the quality scale, and they cannot raise their prices indefinitely. Typically, in many markets of singularities, their price structure is skewed, with a limited amount of 'best' or high-quality—according to the standards of taste prevalent in the market—products sold for prices that are remarkably higher than those of other products. Small differences in quality can lead to big price differences.

In the mega or popular taste regimes, the market share of the most popular or 'best' products is very big, and the great majority of firms sell only a few or no items at all. This is typical in book and film markets as well as in the markets of recorded music, or in general in the markets of relatively cheaply reproducible cultural products. These markets tend to have 'long-tails' (Anderson 2007); following an increasing variety of products, the great majority of the goods sells very little or hardly anything at all, creating a loss for their producers, who must have, in order to gain profits, at least some bestsellers among their products or popular artists or authors in their stable. Even though the search machines of the internet have made it possible for their potential buyers better to find previously unknown products or small producers, and in some cases they can even raise them from their almost total anonymity into fame and commercial success, this presumes the operation of market devices, as in any market of singularities, in creating a common taste. It does not necessarily flatten out the peaks and shorten the tail of these markets in any remarkable degree, either. New winners can emerge more rapidly and old ones 'die out', but the 'winner takes it all.'

A modern standard textbook on microeconomics formulates in general terms, without referring to the kind of reasoning presented in this work, the situation that can be interpreted to face a firm in a typical market of singularities or, for that matter, in status markets (cf. Fligstein 2001 and Podolny 2005) with their quality differences and consequent tendency to product differentiation as monopolistic competition:

> If a firm is making a profit selling a product in an industry, and other firms are not allowed to perfectly reproduce that product, they still may find it profitable to enter that industry and produce a similar but distinctive product. Economists refer to this phenomenon as product differentiation—each firm attempts to differentiate its product from other firms in the industry. The more successful it is at differentiating its product from other firms selling similar products, the more monopoly power it has—that is, less elastic is the demand curve for the product. … An

> industry structure such as that described above shares elements of both competition and monopoly; it is therefore referred to as monopolistic competition (Varian 2002: 454).

According to the author,

> the industry structure is monopolistic in that each firm faces a downward-sloping demand curve for its product. It therefore has some market power in the sense that it can set its own price, rather than passively accept the market price as does a competitive firm. On the other hand the firms must compete for customers in terms of both price and the kinds of products they sell. Furthermore, there are no restrictions against new firms entering into a monopolistically competitive industry. In these aspects the industry is like a competitive industry (Varian 2002: 454).

Technically one can say that the steepness of the demand curve facing a firm depends on its elasticity. Typically, the demand curves of the market of singularities in general are less elastic than in the standard markets, but it is difficult to say anything more general regarding their price formation that would be common to them all or even most of them (Varian 2002: 454). Markets of singularities should therefore be analyzed on a case-by-case basis and distinguished according to, in addition to their size and degree of centralization, the market devices and market regimes that are constitutive to each of them. Thus, economic markets can and should be studied not only as concrete historical cases, which differ from one case to another, nor as instances of the same market. Economic sociology can, by finding important common features in their constitution, apply theoretical concepts and draw some more general conclusions about their price formation as well. In many markets it is not primarily or exclusively the relative market position of the firm that decides its prices but the social mechanism of the formation of the collective taste. The market position of a firm, the substitutability of its products, and the elasticity of its demand curve depends directly on the market devices in use. If, for some reason, these devices or the market regimes are transformed into others (for instance from the authenticity regime to the common opinion regime), they can alter the relative market position of the firms. The case of wine guides and the evaluation of quality of wines offers again an illuminating example. The 'scientification' of the Californian quality system after the Second World War constituted, for the first time, a quality market of North American wines, just as the regionalization and the following system of chateau and vintage wines had done some decades ago in France, changing their pricing.[8] To take another earlier example, the change from the Billboard charts to the new system based directly on record sales, altered the market competition—even if not drastically—in the American music business.

Taking into account the importance of the market devices and market regimes, one could imagine that firms would often actively try to influence the

construction and use of these devices. A detailed historical study of their establishment and transformation is therefore very important. On the other hand, not all markets of singularities rely on such market devices; they do not explain how they succeed in guiding the formation of a common taste. They also rely on social formations, fashion, social worlds, and fields of culture, which are not as organized as some devices are. Individual fashion markets differ greatly from each other, for instance, as far as the length of the fashion cycles or the number and relative share of the fashion leaders in the respective markets is concerned. Social worlds and social fields can be more or less hierarchically ordered, and their expert groups and 'taste setters' can be smaller or bigger, which can have an impact on the price structure in the related market. One could easily go on with these examples about the specificity of the markets of singularities. One can agree with Varian that 'monopolistic competition is probably the most prevalent form of industry structure' as well as with his conclusion that 'it is also the most difficult to analyze. … It is unreasonable to model a monopolistically competitive industry in the abstract, as we have done in the simple cases of pure competition and pure monopoly' (Varian 2002: 454). He recommends, therefore, that one should always examine the institutional details of the particular industry under consideration. Varian sees, in a way common to economics, the decisive institutional factors causing variation in the models of the monopolistic competitive industry in terms of 'the specific details of the products and technology, as well as on the nature of the strategic choices available to the firms' (Varian 2002: 454). His advice to analyze different kinds of market institutions in detail is certainly worth following. However, one should add, following the example set by the sociologists of markets, that one should not take into account only the natural or technical properties of the goods or analyze the strategic choices available to the firm, but also emphasize the role of the social mechanisms of the formation of consumers' taste and preferences.

As the above discussion has shown, one does not necessarily have to face the opposite alternatives of either relying on abstract economic theory—with its models often alien to reality—or on concrete historical descriptions of different kinds of markets and their historical development in the spirit of the German historical school of economics. Just as Max Weber suggested, there is a third way open to economic sociology to conceptualize and classify systematically various kinds of markets, thereby making both the peculiarities and the commonalities of their functioning better understood. In doing this, the systematic institutional analyses of markets should pay attention both to the relative weight of the producers in the market as well as to the social constitution of taste as well as the quality and relative worth of its products and services.

In neoclassical economics, individual preferences are usually taken for granted. For the purposes of economic analysis, the social processes that give shape and transform the taste of the consumers and their individual preferences are often regarded as irrelevant or as less important. They are exogenous factors, not in need of analysis and explanation. In his *Accounting for Tastes,*

Gary S. Becker (1996) develops, as an alternative to standard economics, a utility function that takes seriously into account the endogeneity of the preferences. Becker's main postulate is that 'economy also affects tastes regarding goods, leisure, and other activities. In other words, preference both influence economic outcomes and are in turn influenced by the economy' (Becker 1996: 18). His new utility function takes into account a person's 'total stock of human capital,' consisting of both personal and social capital, that both influence the economic processes and are affected by them. Preferences are not stable and independent but change with time (personal capital). A person's social contacts and relations (social capital) can have a decisive impact on them. To put it simply, both the historical trajectory of consumption of all kinds of goods and services, cultural and educational included, as well as the social networks of the consumers are important in understanding their preferences. Becker's idea of the different types of capital resembles Pierre Bourdieu's (1984) less formalized but sociologically more advanced theory of the interplay of the cultural distinctions of taste and social differences, as well as Bourdieu's idea of the accumulation of the three forms of capital, cultural, economic, and social, in which status competition plays an important role. In contrast to the approach of this work, Becker pays attention primarily to the social determination of individual taste and not to the formation of a socially shared, common taste as well as the distinctions of taste in between social groups, which is the basic question in understanding the social constitution of economic markets.

CHAPTER 5

The Three Social Formations of Taste in Economic Markets

Fashion

One can claim that there are, in addition to traditions, three main social mechanisms of the formation of common—socially shared—tastes. These mechanisms or social formations are 1) fashion, 2) social worlds, and 3) fields of culture. Using the terminology common in economic sociology, one could say that they are concrete examples of the social embeddedness of markets, each of them having their own dynamics and more or less extensive coverage. In each case, we have also access to a rather developed sociological theory, which explains its basic mechanism and functions. The sociology of fashion was developed by Georg Simmel (1957), the social worlds by Howard Becker (1982), David Unruh (1979, 1980) and Anselm Strauss (1972, 1982, and 1983). Pierre Bourdieu (1984) presented a comprehensive theory of cultural fields. They all share with Karpik—more explicitly in the case of Simmel and Bourdieu and more implicitly in the case of Becker and others—the fundamental idea that the judgment of taste is the key to understanding these kinds of social formations. Following Lyotard's (1988) famous metaphor, they can be characterized, in contrast to traditional and normatively stronger regulated communities, as 'a cloud of community.' The idea of social worlds and cultural fields resemble each other in many respects, but theoretically, as far as their basic presumptions are concerned, their perspectives also differ from each other. Before discussing in more detail which mechanism of taste formation is active in which market regime, let us first present the basic concepts and characteristics of these three social mechanisms.

Fashion comes to one's mind easily in this context since the 'mystery'—the sudden emergence and disappearance of new models and designs—of fashion consists of the creation of a common taste, which, however fleeting, ephemeral, and changing over time it ever might be, offers a common standard of taste that guides and binds the individual consumers at any one time, at least to some degree. Thus it solves the problem of quality uncertainty in its own way. It is generally known that fashion is functional to capitalist economy by creating and keeping up demand for ever new commodities by 'artificially' ageing them. Its economic function, of 'artificially' ageing otherwise quite useful

clothes, does not really explain the social mechanism that makes it possible and keeps it going. A fashion does not serve any practical purpose. It stands beyond practical reason (Tokarzewska 2010: 143). Something else could just as well be in fashion. There is no particular reason why this or that style or design should be in fashion instead of another one. It just happens to be in fashion. In other words, fashion is not instrumental. It is a pure question of taste, and as such an aesthetic phenomenon (Gronow 1996).

The world of fashion is like a play world (Gofman 2015: 39–41). There are no objective criteria or standards why some design is better than something else. The breadth of the trousers' legs, the size of buttons, the color of a shirt, shoes with a short or long point, do not after all make any 'real' difference. The only reason why something feels like the right and, often only, alternative is simply that it happens to be in fashion right now. Its novelty is what makes it appealing to consumers. It is simply experienced to be beautiful and stylish, until it becomes outdated and something different and completely new takes its place. Furthermore, there is no natural continuity from one fashion to another: the fashion of tomorrow does not follow according to some rules from the fashion of today. They cannot be deduced from one another, nor can their transformation and development be predicted. Despite its frivolous nature, fashion obliges us to behave in a certain way, just as one's peers or everyone else does. As such, it is more or less socially binding but less compulsory than normative regulation still creating order in social life.

The economic functionality of fashion does not explain how it comes into being and which social forces keep it going. According to Simmel, fashion is the result of two simultaneous and mutually opposing socio-psychological forces that alternate with one another: the human drive to be one with one's social group, or part of a social whole, by imitating others, and the need to be different and unique, to distinguish oneself from others. In fashion these two instincts alternate eternally with each other. Fashion operates predominantly in the modern differentiated and individualized society where stronger traditional ties that bind people with their social groups have lost much of their hold on their members. Fashion is a relatively harmless way of both distinguishing oneself from others and merging with one's social group. With its help, modern men and women can both express their individuality, in however modest a way, as well as be at one with others without having to choose either one or the other, A fully fledged fashion is also an essential companion to the modern world and an important part of the world of the exchange of commodities in a developed, market economy.[1] It is a phenomenon of modernity par excellence and teaches us, as Simmel thought, in a relatively harmless manner how to live in the modern world where nothing is stable and eternal but everything is in a state of constant change (cf. Esposito 2011).

The social mechanism of fashion does not, by any means, limit itself to the garment industry and clothing markets, even though clothing fashion is a primary example of fashion, with its long history, firm institutions, and regularly

repeating fashion cycles. These fashion markets consist of a huge amount of fashion professionals, from designers and trendsetters to fashion journalists and marketing experts. They have their own market devices and trendsetters. Fashion cycles can be identified in a wide variety of markets of consumption goods, from private cars and PCs to food and drinks (Djelic & Airamo 2005). Car producers, for instance, regularly introduce their new models in international car shows each year. The novelties concern the car design just as much as technical inventions. However, despite serious attempts, it has been difficult to introduce seasonal or annual fashion cycles and planned obsolescence in many consumer goods markets, such as home electronics and other durables. Some novelties represent not only changes of fashion but real innovations. They are here to stay, becoming firmly established components of all the goods in their market (Gronow 2009).

According to Simmel's classical formulation, fashion can operate in any field of culture where things could just as well be thought to be otherwise, in other words, where there are no technical or objective standards or reasons of goodness. This shows its close proximity to Karpik's markets of singularities. As Simmel (1957) claimed, holy things and rituals cannot become fashionable, since the believers cannot possibly think that they could be radically different. Their quality uncertainty is therefore less accentuated or almost nonexistent. Objective standards of goodness, with or without procedural devices, can effectively restrict the operation of fashion in a market of goods. However, more or less highlighted and regular, as well as more or less rapid, fashion cycles can be identified in all kinds of consumer goods markets, their differences depending on their nature: In some markets nothing restricts the free and rapid change of fashion, in others technical standards of goodness—or technical testing—can dominate the preferences. In some markets, again, choices are made following well-established customs or traditions, in a habitual manner, which leaves little place for novelties. In such markets, the value of the goods traded can be traditionally established and relatively stable leaving little place for abrupt changes and, consequently, for the 'frivolousness' of fashion. In their turn, some markets consist of mass-produced goods with relatively simple standards of evaluation that do not usually face any significant problems. Also in these markets, cyclical fluctuations of fashion can take place, even though often in a more moderate and less accentuated manner.

It is an interesting question: To what extent is fashion operative in Karpik's market regimes, and in which regimes in particular? What is its relation to market devices? Or should one rather claim that fashion is a market coordination regime on its own? It is obvious that as a mechanism forming or promoting the formation of a collective taste, it fulfills the same function of market coordination as Karpik's market devices by establishing an order of relative worth of singular objects that are plagued by their principal quality uncertainty. Although Karpik's regimes always operate with specific market devices, which in some cases resemble technical instruments with their tools of measurement

(sales statistics, charts, etc.), fashion presents a pure case of the spontaneous formation of a 'common sense' without the help of any such 'technical,' or for that matter connoisseurial, devices and in that sense offers another perspective on the constitution of the markets of singularities. Fashion is a pure mass phenomenon and in many ways, fashion markets resemble Karpik's public opinion regime. The mega regime of mass movies is also a typical fashion regime with its own system of fashion promoters. The movie seen at its premiere or during the first week of its release offers a different experience and is a different product from the one seen several weeks later, not to mention its release on TV (Surdam 2015: 230). Many fields of regularly operating fashion, most notably clothing, take refuge to all kinds of devices too. For instance, fashion magazines and TV programs, with their journalists and commentators or critics, give regular advice regarding how to dress fashionably, contributing to the formation of a collective taste. Big producers and distributors of fashion are good at aggressive marketing and advertising. Even if important or powerful economic actors can manipulate the consumers and leave them very little space for effective choice, they have no other reason to promote a particular design over another other than that they, or their own fashion experts and promoters, have chosen it as the fashion of the year or season. Before the decision to start its production was made, it could just as well have been otherwise because there is no objective way of deciding its goodness and worth. A good example of the fact that common taste can also take shape—at least partially—without any devices are the annual novelties and regular fashion cycles in the first names given to newborn babies, which mostly lacks guides, critics, or any real marketing devices (Lieberson & Bell 1992; Gerhards 2003).[2] It is a field of culture but not a market of its own.

Social worlds

Social worlds are the second candidate for the social formation of a common taste. The idea of social worlds was developed among social interactionists in the 1970s. It is best known from Howard Becker's *Art Worlds* (1982). Becker's seminal work offers a very broad concept of the social world of art that comprises, or conceptualizes, the whole social and cultural institute of art—in its various levels and forms and with its various actors, producers, middle-men, critics, art historians, public, and consumers. In its extensiveness, Becker's social world of art comes in fact quite close to Bourdieu's idea of the field of art (Bottero & Crossley 2011). However, the social world perspective developed by Unruh and others is more limited. The main idea behind this perspective of cultural study, both in its broader and narrower versions, is the following: A social world, whatever it might be in any concrete case, is a separate part of social reality, relatively autonomous from other social worlds or institutions and the rest of the society. It has its own rules of conduct as well as standards of worth

and goodness or taste. As with fashion, it does not serve any external goals. In other words, it is a play world, like a game. Although the original theoreticians of the social worlds did not explicitly refer to their aesthetic nature, they resemble fashion in the sense of not being instrumental or fulfilling any external goals. These worlds operate according to their own rules, but these rules cannot normally—at least not completely—be explicated in the form of any definite standards of conduct in a guidebook, nor can their performance be objectively measured. In other words, they rely on the judgment power and tacit knowledge of their participants. A game of sports is a typical example of a social world the rules and standards of which are valid and relevant only in the game for those who voluntarily agree to follow them. Once the game is over, and the players 'return to reality,' they become completely meaningless. A game of sports has formal rules determining how to win the game. But despite the fact that the winner can often be chosen simply by counting points or goals, the best player is not necessarily the one who scores best. The graceful and skillful performance factors in as well. This is always something that is up to the judgment of taste. In this sense, children's play worlds or fantasy games are an even better example of social worlds. They do not usually follow any strict rules and exist only as long as the players of the game take their roles in the play for granted and play along. Any player can stand up and remind others that this is not 'really real,'—thus spoiling the fun of the play for all the others or at least for themselves. As long as they all play along, the world is real enough.

Paraphrasing Kant, one can say that social worlds share the form of purposefulness without serving any purpose. They are typical examples of a self-purposive social activity having an end in themselves. Good examples of social worlds are, in addition to sports, easily found among all kinds of hobbies or other kinds of voluntary free time activities. A social world is always constituted by a core activity, which determines what belongs to and is relevant in the particular world. In addition, there exists a set of mostly implicit or, at times, explicit rules that tell what is the right way of 'playing the game' as well as who is best in reaching its goals, the winner of the game, or the best performer. A social world does not have to be competitive but still shares some good performance. Consequently, by intensive training and exercise, one can become more competent or qualified in the world. Some worlds can be extremely complicated, allowing for a lot of virtuosity and mastery; others can be more simple (Gronow 2004).

Sport fishing is a good example of a social world in its own right (see Ditton et al. 1992).[3] Not just any kind of fishing is recognized in a particular sport fishing community; however, consider fly-fishing, for example, in a particular type of natural stream or rapids, which demands a lot of skill and exercise with a special kind of equipment. One can develop one's skills by practice and repetition. The relative worth of the catch can vary and does not exclusively depend on the size and type of the fish caught but also on the 'beauty' of the catch, where and how it was caught, such as after a long and heavy fight. Some sport fishing social worlds follow the rule of catch and release, which emphasizes its

non-instrumentality as a pure hobby, an activity that has an end in itself and does not serve any external purpose. It is not submitted to any other social world, like gourmet cooking and dining either. It is of course possible that there are persons who are members in both social worlds, fishing and cooking, in which case their activities may overlap or exist peacefully side by side. Conceptually they should, however, be kept separate. All kinds of collectors' worlds (stamps, irons, paintings, old cars, hockey player cards, coins, etc.; cf. Belk 1995) are good examples of social worlds. They have both their own socially constructed standards of goodness and worth as well as a core activity of their own that can be completely irrelevant, or even ridiculous, to outsiders. Lovers of pets of all kinds can also constitute a social world whenever they share the same ideals of breeding and training the animals or concentrate their interest in the cultivation of a peculiar breed. Many cultural activities that unite some group, be it small or big, of people, such as amateur painting or theatre, card or computer games, can also be conceptualized and analyzed along the lines of a social world.

A social world always has three types of participants, the absolute and relative size of which can vary from one case to another:

1. insiders or experts who by their more advanced example and knowledge determine and keep up the 'rules of the game' and its standards of worth;
2. regulars who participate in the social world repeatedly following the example of the insiders and by doing so legitimate the world and keep it going; and
3. tourists, or occasional visitors, who mostly come out of curiosity, stay a while, and then leave the world, from among whom the regulars and, in the end, insiders are recruited.

As already stated, a social world can be big or small; it can have a long history or disappear quite soon after its establishment. They are non-profit organizations and their members are either not rewarded for their services with money, or at least monetary awards do not play a decisive motivating role. They are expected voluntarily to give their input to the world—in some cases demanding a lot of effort and time, in others just minimal. A certain degree of serious involvement is also expected from the participants. In some cases, all kinds of economic activities can develop around the core activities of a social world, and they can even come to represent remarkable financial assets and interests. Many bigger and well-established social worlds can, for instance, have a special journal or guidebooks dedicated to their own hobby. Daily newspapers can regularly report on their activities. Special shops and service centers can serve the rather specific needs of their members. As a consequence, some insiders can make their hobby into a profession by becoming coaches, trainers, critics, or guides, or open a special boutique or workshop, exercise handicraft, and so on. As long as these economic activities remain on the sidelines, only serve or assist the

main activity, and do not interfere with it by changing the main orientation or play-like nature of the activity, they do not threaten the principal character of the hobby world as a social world (cf. the often rather thin and obscure line that separates amateur from professional sports). It is also likely that the bigger the attraction of a social world and the more tourists it attracts, the more likely is it that it gives rise to commercial activities inspired and closely associated with it.

Social worlds are obviously relevant to the question of the constitution of economic markets only in case they give rise to economic activities, services, and goods to be sold and bought, but they can also serve as an interesting case of the importance of taste formation to the coordination of social activities in general. The same question can be asked about the social worlds as about fashion: are they regimes of coordination or are they also in need of or dependent on market devices? As formations of collective taste, they make a market regime possible, but at the same time, they are not simply market devices that are instrumental in producing a socially shared taste. They are themselves constituted by a common taste, based on imitation and competition. Each social world does have a specific and autonomous order of worth, which typically both determines what belongs to it and what does not, as well as reduces or even abolishes uncertainty concerning the quality of its objects and services. Although the same objects or services might have an economic value and a price outside the social world, this is no substitute for their quality and value inside the social world. Many collectors' worlds offer good examples of this. A specific, first-day stamp or a misprint does not make a stamp any better or more valuable from the point of view of its official use as a stamp on an envelope to be sent by mail. Quite on the contrary, the stamp could be invalid because it is already used or a misprint. Among a specific social collectors' world—which appreciates such rare stamps and misprints—they can be priced extremely high. They are rare and valuable only among the particular social world which determines—explicitly or implicitly—its own standards of worth. Such objects may sometimes have a high price and be attractive to outsiders, ordinary investors, if they have a rather extensive, stable market as well as more or less objective prices that are expected to go up in the future. This presumes, however, that the social world is, like the many art worlds analyzed by Howard Becker (1982), well established, firmly institutionalized, and quite stable, with many insiders and open to outsiders. To take a completely different kind of an example from a social world that can have remarkably high economic value as well, an owner of a rapid with wild trout might charge high prices to fishermen fishing in it. The fish and the rapid is highly valuable only because this particular social world values it highly. Although the fish might have some economic value when sold on the market for food, and this would be an alternative way of realizing the economic investments in the water and land, it would probably be less profitable than sport fishing, which seldom seriously taxes the fish stock of the river. One and the same product can therefore live a double life in two separate worlds, as ordinary objects of consumption and as rare and highly specific objects of collection or admiration.

Many smaller, less attractive, or more closed social worlds have very little or no economic relevance at all, and consequently their core activity and the objects and services related to them have no real, fixed market price. Their economic value and price could also be higher in their simultaneous capacity as ordinary objects of use. For instance, old cars can be members in two separate markets at the same time, the market of ordinary secondhand cars and the collectors' market of vintage cars. The price of the same good changes when it makes a move from one market into the other. As soon as a vintage car becomes clearly more sought after and expensive in the collectors' market, it tends to disappears from the standard market. This explains the fact that at one point of its history the price of a secondhand car can start to rise again, after falling steadily for years or even decades. This can be connected to it getting rare—most of its 'contemporaries' have faced the natural fate of extermination—but it enjoys a new demand and a higher value only because it is a specific item appreciated in a specific collectors' hobby world.

Social worlds can be bigger and smaller, local and global, loosely organized or closer to formal organizations. They die out and come into being. They can also be differentiated and form new social worlds, even sub-worlds, when some members choose from among the core items valued in a world some smaller sub-category or develop a new variation of the old, for example start collecting and appreciating all stamps of a certain state printed before World War I, or stamps with some specific topic, like warships, or invent some separate but related and in some respects similar collectors' item, like matchboxes, labels of beer bottles, candy boxes, and so on.

Social worlds can operate both in the authenticity regime, with its relatively small markets, specific core products and logic of originality or authenticity, and in the expert opinion regimes, when the insiders of a social world act either as informal and anonymous or as formal trendsetters. As in the social formation of fashion, social worlds often make use of the market devices described by Karpik, such as reviews, ratings, and prizes. Since tastes in the world of fashion and in the social worlds can only be internalized and spread though learning, imitation, and socialization in general, they are, out of necessity, always dependent on personal, familiar, or anonymous networks even when they do not rely—or rely only to a smaller degree—on formal or impersonal devices. Understood in this broad sense, these social networks are not a substitute for Karpik's devices but rather help to clarify the process of the collective taste formation and what the various kinds of social mechanism are that mediate it.

Fields of culture

The third and last candidate for the explanation of the social formations and mechanism that gives rise to a common taste, thus reducing quality uncertainty, are social fields of art and culture analyzed by Pierre Bourdieu in several

of his extensive empirical and historical studies, most notably in the *Distinction* (1984). Bourdieu's *Rules of Art* (1995a) is particularly relevant work for our purposes because it describes in detail the birth and constitution of a field of art, that of classical French novels. Cultural fields are united with the other two candidates, as well as with Karpik's market devices and regimes, through the question of taste. As Bourdieu (1984: 56) explicitly stated, taste—judgment of taste, which makes distinctions—is all that we are, in relation to others, to the world of goods and services and to ourselves. Taste is to Bourdieu, just as it is to Karpik and Simmel, an aesthetic phenomenon. He adopts his concept of aesthetic taste, as opposed to sensual taste, directly from Immanuel Kant's Third Critique, at the same time revealing its 'real' nature, which, in Bourdieu's mind, only hides behind its seeming disinterestedness the interests of a social class, that of the ruling class of the society. In order for it to work effectively in a field of culture legitimating good taste, the persons involved must be convinced that they do not by any means act for any selfish motives but for the sake of pure art alone, only promoting good taste in the best interests of humankind, for the common good. The conscious imitation of the taste of one's superiors in order to achieve higher esteem and elevate one's social status never works and only shows the real character or vulgarity of the person in question, as is the case typically among the nouveau riche or the parvenus. How one can explain that something, or some actions, are at the same time totally disinterested while serving the particular interests of the power of a social class is an intriguing question that Bourdieu (1984) explicitly raised. However, his answer was not very convincing.

Bourdieu's fields of culture (1983) share with the social worlds the idea that they are constituted by a core activity, be it writing and reading novels or poems, painting and appreciating paintings, or composing, performing, and listening to a certain kind of music. To Bourdieu, the academic world is also typically a field of culture of its own, with its own standards of goodness, types of capital, and status hierarchies (Bourdieu 1988). He postulates a homological relationship between the tastes of the producers and consumers, those active and interested on popular or commercial art on the one hand and those in high-brow culture on the other. A field emerges when a domain of culture gains autonomy from the general public by developing and educating its own experts of taste (Fourcade 2007: 1023). Furthermore, just like social worlds, these fields always share a set of—mostly tacit—rules that define what is authentic and original in the field, what belongs to it, what does not, what the standards of goodness are, and the worth applied in it. It is essential both to Bourdieu's and Karpik's reasoning that judgments of taste cannot be reduced to any explicit standards or rules, typical of classical aesthetics, such as the harmony of the form, the colors or sounds, or the golden ratio, but result from the exercise of the aesthetic sense of beauty alone, claiming universal validity and, in Bourdieu's case, legitimacy. That which is good and worthwhile in any particular field of art or social world is learned by practice and by imitating others, one's peers or more experienced

art lovers, until it turns into tacit knowledge, a natural and habitual part of the behavior of its practitioners.

Bourdieu's analysis of cultural fields is distinguished from that of social worlds by his belief that all judgments of taste are only tokens in the game of status and power. The cultural elite or upper class of society cultivates and maintains the standards of beauty. With their authority and self-confidence, made possible by their superior cultural capital and social background, they set the rules in the game of cultural distinctions, which, again, guarantees that they keep up their higher status and will continue to stay in power. Their power consists essentially of the fact that they are in a privileged position to determine the rules of the game and the valid assets of cultural capital. But they are also dependent on the fact that other groups of society, those directly under them on the hierarchy in particular, recognize the legitimacy of their taste. The members of the elite know how to behave and appreciate culture in a proper way without effort. The other classes or groups of society can, at best, emulate them in order to raise their own social standing, but the taste of the cultural elite always tends to escape further by making ever more and finer distinctions. Alternatively, a new cultural vanguard or the aspiring middle classes can challenge them and set their own standards instead as the new legitimate standards of taste.

The superior position of the cultural elite comes from their higher cultural capital, which again can result from higher formal education or be inherited, learned at home, and accumulated during primary socialization. It often correlates with economic capital but it is essential to Bourdieu's reasoning that these two capital forms are separate from each other and can accordingly vary relatively independently from each other. In principle, it is always possible that some individuals or groups succeed in accumulating cultural capital of their own and can thereby become members of the cultural elite or that new aspiring social groups challenge the existing hierarchy of taste with their legitimate taste distinctions and establish their own taste as the new legitimate taste instead. The old elite can in its turn try to avoid or escape such competition by developing ever finer distinctions and cultivate their taste ever more, which can protect them from the threat that the emulation of the culturally lower groups poses to them. The social competition over legitimate taste can play a decisive role in the history of art and science, transforming the styles and standards of beauty and worth. It can also lead to radical changes in the social constitution of the cultural elites and ruling classes. However, it can never revolutionize the whole social order as such, which is as if doomed to stay hierarchical and competitive, consisting always of a cultural elite, a middle class or classes, and a lower class, or the proletariat. The struggle over good or legitimate tastes comes to an end only in a completely egalitarian society where every member possesses as much cultural and economic capital as anyone else. Such a society is theoretically possible but hardly realizable in practice because it would also make all—or at least all hierarchical or status-related—cultural distinctions obsolete.

Bourdieu seemed to share with Nietzsche the idea that the struggle for power belongs to human nature and is an inherent and unavoidable constituent of any society (Rahkonen 2011). This idea resembles Simmel's worry that leveling out of social and cultural differences would lead to the disappearance of spiritual nobility, or 'Vornehmheit' (Lichtblau 1984).

The fields of culture differ from social worlds at least in one important respect. Although a person can enjoy high status and exercise power within a particular social world, his or her power resource is not as a rule generalizable and valid outside this world. A collector of stamps may enjoy high esteem and reputation within his or her collective of stamp collectors, or at least within the specific group of the stamp collectors who share his or her taste, but he does not normally enjoy any extra status in the society at large. Most people could not care less about his or her peculiar hobby and remarkable achievements in cultivating it. The other members of his social world could, in their turn, very well keep them in extremely high esteem. It is certainly true that some well-established and popular hobbies are more generally recognized also among the society at large, and sometimes even outsiders can admire the achievements of their experts and insiders. This is most probable in such cases which are active and open in demonstrating their activities and performances to the 'world outside' by publishing and sharing information, organizing exhibitions or shows, and the like. They can also have rather big economic markets attached to them, making them economically interesting even to non-members. Bourdieu's cultural capital and higher status enjoyed within a particular field is, on the contrary, always generalizable in principle as symbolic capital, at least to some degree, thus guaranteeing a higher social status to its owner in the 'bigger' society too. In Bourdieu's theory, cultural capital and economic capital can usually be exchanged, as if following their own and constantly changing rate of exchange. High cultural capital, educational diplomas, cultural possessions, and other achievements as well as practical skills can be sold on the labor market or commodity market for money. With enough economic capital, one can achieve, for instance, higher educational degrees and valued cultural possessions, thus accumulating one's own cultural capital. In some cases the 'cultural capital' accumulated within a social world can also be transferred into economic assets, but this is not necessarily the case. Many social worlds are completely or almost completely non-commercial or even openly anti-commercial. What differentiates these two social formations, which otherwise resemble each other, is that Bourdieu's cultural fields are typically well-established social institutions, such as art, literature, fashion, or sport. They have their own formal educational and other cultural organizations and cultural mediators legitimating them, often financed by the state, and they play an important role in the socialization of the cultural values of the citizens in general. As Bottero and Crossley (2011: 105) argued, resource and power inequalities are, just like in Bourdieu's *Distinction*, crucial to Howard Becker's account in his *Art Worlds*, the most extensive and in many ways exemplary work on modern culture from

the social world perspective. However, as they conclude, 'he draws back from a "structural" analysis of them, preferring instead a looser focus on how social networks distribute such resources in social worlds.' Another way of formulating it would be to say that Becker does not more systematically analyze how the status, achieved and accumulated in a social world of art, is transferrable to other social worlds or cultural institutions and valued in the society at large.

How does the concept of fields of culture, á la Bourdieu, relate to Karpik's coordination regimes? At first glance, it would look like they are similar to the social worlds in helping to understand the workings of the authenticity and the expert opinion regimes. The cultural elite and the numerous cultural intermediaries act as trendsetters, regularly using such cultural devices as reviews, diplomas, competitions, and prizes. This leaves Karpik's two other regimes intact. As the public opinion regime is the regime of mass products and audience, it does not really fall into the frame of any hierarchically ordered cultural field. In it, the social mechanism of fashion can operate instead. Because economic capital dominates the mega regime (in Bourdieu's terminology they are not autonomous), leaving rather little room for genuine or spontaneous taste formation, this regime also falls largely outside the reach of the fields where cultural capital dominates.

If we take into account not only the more narrow view of autonomous cultural fields and extend our analyses to comprise, in addition to cultural capital, heteronomous fields in which economic capital has a bigger or even dominating role, and if we pay attention to the following social differentiation and cultural distinctions, the working of the mega regime becomes understandable too. It can be seen as a cultural market where economic factors dominate, both on the production side in the form of massive investments in marketing and advertising, and even more significantly, on the consumers' side, making the sales figures the guarantee of the quality and success in the eyes of the ordinary consumers. In it, collective taste is dictated more or less directly by economic input and output, or commercial success in sales figures. Karpik's (2010: 153–4) prime example of the functioning of a mega regime is the global marketing of such blockbusters, like *Titanic,* released on the very same day all over the world. Hundreds of thousands of people saw it during the very first weekend, before any reviews had been published in the press and before any word of mouth could be spread about its value. Its success was a self-fulfilling dynamic process, its popularity during the first weekend on release leading to ever more sales, convincing people that the movie is a 'must' because 'everyone else has seen it.' This does not mean that every film that is launched with a gigantic budget and as effective marketing as the film *Titanic*—the tactic has become standard in big and expensive Hollywood movies—succeeds in making profits. It is not all that easy to manipulate mass taste.

Many markets of culture are differentiated into 'highbrow' and 'lowbrow' markets. For instance, the art film market is separate from popular movies, opera from musicals, belles-lettres from romance, detective stories, and other

popular genres, 'haute couture' from mass fashion, and so on. Their market devices and regimes of coordination differ and, even more importantly, so does their position in relation to the struggle over good and legitimate taste. In fact, the very differences in the social processes of the formation of their taste distinctions and common taste explain why the market regimes can differ quite radically and why there are two or more separate markets in most fields of culture instead of just one standard market.

Bourdieu has rather little to say about popular culture, and he concentrates his efforts in analyzing the taste distinctions and hierarchies as well cultural competition among the cultural elites as well as their potential challengers, the new middle class, the taste of which is always subordinate to the taste of the higher echelons of society. His theoretical framework can best be applied in analyzing markets of luxuries and 'highbrow' art, where objects signify high social status guaranteed by the legitimate taste of the cultural elites and experts of taste. In contrast to the old world of luxuries, typical of conspicuous consumption best represented in the life style of the 'nouveau riche' (Veblen 1918), Bourdieu's signs of status consist often of small and quite refined distinctions, often almost unrecognizable to an uninitiated observer and consumer. It looks like the members of the working class were not at all involved in the struggle for cultural distinctions and social status that goes on eternally elsewhere in the society. In other words, if this were the case, the members of the working class would not exercise any real judgment of aesthetic taste at all. Their taste is, according to Bourdieu, 'natural,' dictated by necessity. If we are to believe Bourdieu, the distinctions it makes are more quantitative than qualitative, more sensual than aesthetic: to them, more is better—heavy food, more wines, simple entertainment, and appreciation of realistic or romantic art, and the like. In eating and drinking, they satisfy simply their hunger and thirst, not reflecting on any more refined taste distinctions. However, it would be more reasonable to interpret Bourdieu's analyses of the lower classes as pointing out that their taste is traditional and conventional with rather stable and less-refined distinctions. The analyses of the role and taste of the lower class is one of the less-developed sides of the picture of distinctions of taste, which Bourdieu otherwise paints with such dedication, detail, and finesse. Therefore, he does not have much to offer in analyzing the workings of the common opinion regime either. This leaves fashion as the best candidate for the social formation backing the popular opinion regime if it is understood not as a part of the status struggle in a hierarchical society (cf. the trickle-down mechanism) but rather as a process of emulation taking place among anonymous and relatively homogeneous individuals, members of the broad middle class (cf. Tokarzewska 2010: 145).

It goes without saying that, for instance the social structure of a well-established world of fashion such as clothes fashion, with a long history and well-established organizations and institutions of its own, is hierarchical in the sense that it has both its own fashion gurus and leaders as well as professional experts, critiques, journalists, and promoters. They compete with each other

about the nominations of the best designs of the season as well as about their own status within the fashion world. As Bourdieu (1995b; see also Rocamora 2002) has shown, the world of fashion design can successfully be analyzed as a cultural field of art just like any other, with all the mechanisms typical to it, and its sometimes quite radical stylistic changes and rivalries of taste resulting from the challenge posed by cultural vanguards. The purpose of pointing out the specificity of Karpik's popular opinion regime and Simmel's mass fashion alongside Bourdieu's analyzes of the 'haute couture' is that the rapid and unpredictable changes of taste of fashion, just like, for instance, the top ten records in the sales charts, cannot easily be understood resulting from more and finer distinctions due to the taste competition among aristocratic aesthetics, nor as radical cultural inventions of an artistic vanguard challenging the old legitimate cultural taste. In emphasizing the central role of status struggles in the fields of culture, Bourdieu's theory can obviously best be applied in analyzing the status markets discussed earlier in this study. As a matter of fact, it can be understood as the necessary bridge between the sociology of status markets and the sociology of market regimes in showing how they all are examples of social orders that rely on the judgment of taste.

Karpik extended the scope of singularities from their more classical understanding of the unique and authentic objects of art, recognized in the economics as an anomaly, to consist of all kinds of cultural products and services, as such extending them to cover wide enough economic markets. However, his approach covers a more limited amount of cultural products and fields than the one that begins with the various social formations of taste, fields of culture, fashion, and social worlds. As we have argued, social formations can function both behind market regimes and at the same time rely on various devices or exist on their own right, coordinating the taste of the market actors without the help of organized devices. This raises the question of the extension of the market of singularities as well as its historical origins and future prospects. What is the relative size and economic importance of the markets of singularities understood in a broader sense? Obviously, there cannot be any straightforward, simple answer to this question. One cannot easily make any quantitative estimates about their economic weight in general, either. What makes the question quite urgent is that one can wonder whether almost all modern economic markets of consumer goods—investment goods are a question of their own and are left outside the following discussion—do not, to a lesser or greater extent, share at least some of the characteristics of the market of singularities and, therefore, are in need of market devices or rely on some coordination regimes through one or several of the collective taste formations.

CHAPTER 6

The Aesthetization of Everyday Consumption

If we are to believe recent Zeitdiagnoses, the diagnoses of the modern culture of consumption, one could claim that quality uncertainty is the general rule rather than the exception. The following is a short outline of the basic ideas of three interesting and important Zeitdiagnoses, which all support the interpretation that quality uncertainty—and the following need for the judgments of taste—is an essential feature of economic markets and modern consumption in general. Colin Campbell argued in his *Romantic Ethic and the Spirit of Modern Consumerism* (1987) that the modern consumer is essentially a daydreamer, or a modern hedonist, who is mostly driven by his or her desires, which can never be satisfied, and who is after new, previously unexperienced and undiscovered pleasures. Gerhard Schulze (1992) suggested, closely resembling Campbell's idea, that we live in a 'Erlebnisgesellschaft,' a society of inner experiences in which an individual consumer is permanently at odds with the interpretation and understanding of his or her own choices and experiences, never being certain whether his or her choices have been the optimal ones. In many ways, Schulze's analyses comes very close to Karpik's: they both share the basic presumption that modern consumption is always plagued by a principal quality uncertainty. Finally, the idea of the aesthetization of the world of consumption, here exemplified by Reckwitz's (2013; cf. Welsch 1993) contribution, generally emphasizes the centrality of the aesthetic judgments of taste as the mechanism that increasingly helps orient the choices of the modern consumer.

Campbell traces the historical roots of his modern hedonistic consumer back to the history of ideas of the Romantic ethic, which developed gradually and at stages since the late Medieval and Early Modern times in Europe. However, Campbell's real clue is the discovery that in its pure—or if you like ideal-typical form—the figure of the modern hedonist can be traced back to the religious doctrines of the Protestant sects, with their eternal and rather indeterminate longing for the heavenly bliss unreachable in their worldly existence. Campbell's great achievement was to show how the very same Protestant ethic gave rise to two parallel and contrary ideational developments, both having an, as Weber would put it, elective affectivity, or 'Wahlverwandschaft,' with the spirit of modern capitalism; the one was related to the orientation of the modern capitalist, the other to that of the modern consumer. These two seemingly opposed dispositions are

Max Weber's economic, instrumental rationality and the irrational and highly emotional Romantic spirit. From the very beginning, the modern individual had not one but two souls, one of the consumer, the other of the capitalist. From the point of view of this study, Campbell's characterization of the modern consumer is interesting. In his opinion, they can never be satisfied, because they can never know for certain what they really desire, nor whether they have reached what they wanted. Compared to the previous analyses, Campbell locates the aesthetization of consumption in the emerging mentality of the modern consumer more than in the amorphous or indeterminate character of the world of goods with its ever-increasing novelties. It is easy to see that these views are just the two sides of the same coin; without the first, the second would not exist, and vice versa. Campbell comes to identify the fundamental disposition of the modern consumer, without which modern capitalism would not be able to function. He is above all interested in explaining the dynamics of modern consumption, the eternal quest for novelties for the sake of novelties: Why are modern consumers willing and ready to consume always something new, unexperienced, the desire for which they cannot really even articulate?

Whereas Campbell's modern consumer-hedonist can never be satisfied, Schulze's (1992) can never be sure whether he or she has made the optimal choice among all the alternatives on offer. However, Schulze's characterization of the orientation, the 'Sinn' or meaning of action, of the modern consumer living in the 'Erlebnisgesellschaft' is reminiscent of that of Campbell's modern hedonist. As modern consumers, people long for genuine and authentic experiences. The problem is that there is no way for an individual consumer to know if his or her experience is the real and authentic one and as good as anyone else's. There is, after all, no external criteria or standards for how to evaluate the quality of one's subjective experiences. In the end, the remedy that Schulze offers comes very close to Karpik's idea of judgment devices. Almost paradoxically, a modern society of highly individualized consumers who are more or less free to make their own choices without any strong external restrictions or normative control exercised by the ballast of traditions (economic limitations caused by the unequal distribution of wealth admitted) turns out to be populated by conformists. The spirit of conformism, and not of individualism, reigns in Schulze's consumer society. The society of inner experiences is a mass society, after all.[1]

The reason for this inevitable 'massification' of the society is that the consumers, left on their own, cannot possibly know how to judge the relative worth or value of the numerous goods, commodities, or services at their disposal in any market. To be on the safe side, they prefer to follow the example of their fellow consumers. This way they will at least know that they have not missed anything interesting and gratifying that others have enjoyed. A good example of this kind of behavior is that out of two—at least seemingly—quite similar restaurants on the same street, one can stay almost empty all evening while people are queuing constantly at the other. This comes close to the idea of Karpik's

mega or popular regimes, where the fact that something is popular, preferred, and bought by millions is the best guarantee of its goodness, proving that it is absolutely worth buying and consuming. Orléan, inspired by the thinking of René Girard, characterizes the basic mechanism at work here as the mimetic principle of desire, which turns out to be cumulative:

> Competition therefore exhibits a cumulative dynamic that is typical of mimetic behavior: the greater the attraction exerted by a given product, the greater the number of buyers, with the result that the desire to acquire it is strengthened further and its popularity becomes still more widespread. … Once each member of a group imitates the majority preference, the sum of individual decisions ends up converging on a single choice. In this case the system as a whole is both highly constrained and stable (Orléan 2014: 55).

The quest for novelties is an equally essential part of the soul of the modern consumer as imitation, but instead of being radically new, these novelties are often just variations of the old. Social conformism can explain why people often prefer to buy more of the same rather than experimenting with completely new items. This principle is apparent most notably in the popularity of TV series, film sequels, series magazines, and the like. Fashion cycles offer also a good example of the principle of safe novelties and their eternal return. In Schulze's interpretation, seriality makes ideal objects of modern consumption: while being repetitive they simultaneously satisfy the desire for something new, even if the difference between the old and the new can be very small or almost undetectable. This kind of experimenting with novelties is very cautious and takes place under restricted and controlled circumstances that do not allow for any real surprises. The winner of *The X-Factor* is a surprise, but the format of the competition stays reassuringly the same. There is absolutely no risk of facing suddenly something totally strange and 'never-seen-before' that one would not really know what to think about or how to relate.

It is easy to see that Schulze's analyses of the market mechanisms that orient the modern consumer and guide the demand for consumption goods fulfill exactly the same function as Karpik's market devices. One could in fact add the principle of seriality as a separate device to Karpik's list of market devices. What makes Schulze's analyses especially interesting is that he analyses the consumer, or demand, side with the devices widely used in marketing and compares them with the mechanism at work on the supply side. For instance, standardization, as well as diversification, is one of the instruments used by the producers to create a relatively stable market for their products. However, it is important to notice that modern consumers' orientation or strategies (demand side) differ from those of the producers', or sellers' (supply side). Therefore, even though they have clear parallels, they are not completely reducible to each other (see Table 2).

Table 2: Two parallel strategies of coping with market uncertainty

Suppliers' strategies	**Consumers'strategies**
Schematisation	Correspondence Abstraction
Profiling	Correspondence Abstraction Variation
Change, Novelties	Variation
Suggestion	Autosuggestion

Source: Schulze 1992: 445.

It is easy to see how the supply of novelties (producers) and the demand for variety (consumers) meet and presume each other on the consumer goods markets and how suggestion must turn into autosuggestion. Schematisation and profiling, typical strategies used on the supplier side, are met with abstraction and correspondence on the buyer's side, helping both to identify and compare qualitatively different products and classifying them into distinctive products groups or 'genres.' The success of the producer's orientation—'suppliers' satisfaction'—is easier to measure in quantitative terms (the amount of sales and profits), as is regularly done. Consumers' success, or satisfaction, is much more difficult, if not almost impossible, to evaluate and measure, unless one takes the sales figures as the starting point here too.[2]

Both Campbell and Schulze presume that the modern hedonistic consumer differs radically from his or her predecessor, the traditional consumer. They seem to think, at least implicitly, that the traditional consumer oriented his behavior according to the simple formula of the satisfaction of their basic needs, such as hunger or sexual desire, which can in a normal case be gratified until they become saturated. Campbell's traditional consumer just wanted more of the same, or in some cases simply hoarded more of the same, like a king's treasure cabin or a sultan's harem. The modern consumer, on the contrary, is looking for and permanently faced with something new and previously unexperienced, on alert for the 'authentic' experience, just as they are for real love. This distinction between rather straightforward need satisfaction and the eternal quest for fulfillment of one's inarticulate desires is reminiscent of Bourdieu's distinction between the aesthetic taste, typical of the upper classes, and sensual taste or, as he calls it, the taste of necessity, typical of the working class.

It is typical of these Zeitdiagnoses that they postulate a rather strict difference either between historical periods or between social groups or classes representing the two basic types of orientations or dispositions in consumption habits, be it between the traditional versus the modern consumer, the society of needs versus the society of inner experiences, or the pure aesthetic versus sensual

disposition of taste. There are, however, good reasons to question whether this kind of a traditional consumer society—or the working class, with its presumably purely sensual needs—ever really existed and whether people have ever—except perhaps under some extreme conditions of hardship—oriented their needs simply for food and nutrition in order to satisfy their hunger, and not, for instance, preferred certain kinds of food or dreamed of some kind of delicacies or rare 'luxuries.' Instead of historical stages or socioeconomic opposites, such conceptual distinctions should be understood as conceptual abstractions or ideal types. It would be more reasonable to argue that what differentiates societies or social groups from each other is their degree of traditionalism versus individualism, or the degree to which common norms and traditions, or even taboos, direct their taste dispositions and consumption patterns and to what degree they have become individualized facing the challenge of individual choice. In the course of increasing social differentiation, traditional norms and restrictions are often presumed to have become looser and more flexible alongside the gradual processes of detraditionalization and individualization or modernization (cf. Heelas et al. 1996; Wouters 2007). However, it cannot be denied that the limited assortment of the goods available in less developed, traditional markets or a life spent in a rather stable or only relatively slowly developing, natural economy effectively restricted the symbolic space of desires.

David Riesmann's *The Lonely Crowd* (1950), which became a bestseller in the 1950s in the United States and was soon translated into several languages, can be seen as an early version of these more recent diagnoses of cultural change. Riesmann discovered that the inner directed personality, exemplified by Max Weber's rational capitalist or a worker dedicated to his profession, whose actions were directed as if by an inner compass pointing steadily towards the same direction or goal, had been replaced by the other directed personality, who was sensitive to the opinion of his peers and others and navigated as if guided by a radar, among his or her fellow citizens, sensitive to their expectations. Riesmann emphasized the changes that took place in work orientation and business life and less the role of modern consumerism in these developments, but he did not neglect them either. Both Riesmann and Schulze—not so clearly Campbell—localize the birth of the other directed and detraditional (or, as Campbell named them, modern hedonist) consumer in the consumer revolution that started in the USA in the time between the great wars and spread to the more prosperous countries of Western Europe after the Second World War and, in a modified form, even to the Eastern European socialist countries. It is questionable whether it is at all possible to identify some kind of qualitative stages or clear ruptures in the development of the market economies since their establishment in the world centers after the opening up of world trade centuries ago (Trentmann 2016) or whether it would make more sense to speak of a more gradual development towards increasing opulence and greater assortment of consumer goods and services, creating room for previously unknown social practices, tastes, and pleasures. Increasing efforts in marketing, design,

and advertisement after the Second World War certainly helped to speed up the process, both by tempting the consumers with promises of happiness and good life and by the image building of goods and services, thus helping them find and even create a place of their own both in the everyday or more festive practices of the consumers.[3]

In his analyses, Reckwitz (2013), one of the more recent representatives of the mostly German discussion of the aesthetization of social and economic life, follows two parallel processes; the first characterizes the work and production process, the second the consumption. According to Reckwitz, the new spirit, or ideal orientation of modern work life, is creativity, which penetrates and permeates many professions as well as whole work organizations (cf. Florida's 2002 thesis of the creative cities and the creative class). The other side of the coin is the quest for authenticity (cf. Karpik's authenticity regime) or authentic experiences. These two trends run parallel to and support each other: the increasing efforts of the creative professionals aim at creating new, ever more authentic experiences. All kinds of cultural workers and their products belong to this group, without a doubt, but for Reckwitz, the new spirit extends it to a much broader impact (cf. Menger 2014). The borders between the products of culture in a more narrow sense and other, traditionally more straightforward or functional consumer goods, both durables and others, become blurred due to the increasing role of design and marketing in almost all branches of economy and consumption today. From the point of view of the present discussion, this means that almost all consumer goods and services become singularities and are 'plagued' by some degree of quality uncertainty, accompanied with an almost overwhelming flow of information and supply of alternatives. Lacking any objective standards of goodness or worth, one has either to rely on one's subjective and therefore uncertain judgment of taste or to take refuge to some market devices offering at least some common guidelines in order to choose the best alternatives. This is as much the case in the markets of cars or cell phones as in the market of, say, milk, yogurt, bread, and potatoes, which all introduce novelties and numerous almost identical alternatives, with relatively small technical or substantive differences but with big promises.

Reckwitz (2013), as well as some other cultural diagnosticians, refer to these processes in general as the aesthetization of the society. In Reckwitz's understanding, the aesthetically oriented action is opposed both to goal rational and normative action. He identifies the very same features of aesthetization in modern consumption, as opposed to instrumental and normative orientations, as Karpik, Campbell, Schulze, and others before him. Reckwitz, however, broadens the scope of their cultural consequences. In the aesthetic orientation, 'it is not important that the signs do not refer now to anything "real," rather the play of signifiers (Signifikante), the fictionality of the production of meanings and the alternative worlds of narratives are in the foreground' (Reckwitz 2013: 27). The artistic form of production has become the general model answering to the

demand for novelties, which are expected to be both interesting and surprising, both original and authentic. Aesthetization has gradually permeated the whole of society by spreading from the narrow field of art into the whole of the capitalist economy during the latter part of the 20th century, transforming it in fact into an aesthetic economy (Reckwitz 2013: 320). As Reckwitz hastens to add, however, these are 'ideal typical' concepts; in reality most situations and markets are a mix of all kinds of orientations and dispositions, including the ritualistic, religious, or artisanal.

Reckwitz (2013: 34–38) identifies five main agents that promote the aesthetization of the modern economy: 1) the expansion of art; 2) the media revolution; 3) the aesthetization of the world of commodities ('Capitalisation'); 4) the expansion of all kinds of objects through innovation, production and spread of artifacts; and 5) the subject-centered orientation. Innovative, in this context, means something more than the creation of technical novelties or more effective and functional artifacts. It refers to the innovation of something that is aesthetically new, or to the production of new kinds of signs, stimulating new sensual impressions and affects. The artistic activity has become the standard model for such creativity (Reckwitz 2013: 40). As Reckwitz summarizes it, 'the objects on the market are mainly interesting as aesthetic objects. The regime of novelties becomes a regime of aesthetic innovation' (Reckwitz 2013: 337).

In the same way as Karpik and Bourdieu, Reckwitz directly takes over the aesthetic taste as the third type of disposition that differs from and is opposite both to instrumental goal orientation and rule-governed, normative action. Even if Reckwitz does not take his analyses so far, his aesthetic realm is, in fact, the realm of the judgment power in between pure reason and practical reason, or science and moral, as analyzed in Kant's third Critique. It stands for a 'third realm,' in contrast to the natural world of pure reason, and the normatively regulated world of social relations, in which practical reason reigns. This kind of Kantian conceptualization of the social relations has both its benefits and problems. The problematic side is that the aesthetic disposition easily becomes a residual category, something—and everything—that is not instrumentally oriented or normatively regulated. As such, the aesthetic world of consumption stands beyond natural needs and normative or traditional rules of conduct. The discourse of aesthetization runs parallel to that of individualization and detraditionalization (cf. Giddens 1991; Heelas et al. 1996; Beck 1992). Instead of a world of individual freedom and choice postulated in the economic theory exemplified by the ideal type of Homo oeconomicus, such aesthetic consumers are by no means isolated individuals left on their own. They are socially oriented in their own way, as Karpik's analyses of the constitution of the different market regimes concretely show. The guidelines offered by the various market devices or, for instance, by the social formation of fashion or social worlds, help to orient one's actions and choices but also invites one to exercise one's own judgment power. As such, they are at the same time socially binding

and freely give way to individual variation and diversity. They operate, just like Kant's antinomy of taste, in the interplay between subjective judgments of taste and 'common sense.' Thus, it does really look like two parallel tendencies are observable in the social relations of modern capitalist societies: calculating rationalization, or scientification, and aesthetization, competing about the souls of modern men and women.

CHAPTER 7

Finance Capital and the New Financial Markets

Financialization of almost everything

Today, consumer goods markets are hardly ever standard markets consisting of homogenous, completely substitutable products and their producers from among which the consumers and buyers have no problem evaluating and choosing the one that best fits their needs, tastes, and other preferences. If we are to take the signs of the aesthetization of economy seriously, one has to analyze the constitution of economic markets, and not only those of cultural goods. Zuckerman's study (1999) of the stock exchange offers an illuminating example of the use of judgment devices in a market that one would not at first glance think to be plagued by serious quality uncertainty. Zuckermann shows the important role of the securities analysts in a market that, according to the dominant academic perspective on the value of financial assets or shares, which take their price as the best estimate of their value, should be quite certain and unambiguous, according to the theory. Therefore, the stock market should not display the same problems as the markets of culture plagued by principal value uncertainty. In the financial markets, the market actors should be fully informed of the price of the product that is obvious and well-known to everyone. The objects of trade in these markets are entitlements to future dividends of the underlying assets, the values of which can differ only quantitatively in monetary terms. However, as Zuckerman shows, this is far from the reality. Financial products are, if anything, affected by quality uncertainty typical of status consumer goods and singularities. Therefore, their markets are just as badly in need of market devices in the shape of the market analysts who, as a rule, do not base their judgments on any straightforward statistical calculations but more often use their own expert knowledge about the firms and their markets and, in the end, rely on their own informed judgment (cf. Davis 2009).

Financial markets admittedly differ from the markets of consumer goods in many ways as far as their sellers and buyers are concerned. They are investors' markets, where the explicit goal of all the market actors is to make a profit, thus accumulating more capital. In Max Weber's terminology, the meaning of the action of the economic actors in these markets is formal rationality understood in terms of monetary accounting, and its goal measured as a quantitative

increase using capital accounting ('Kapitalrechnung'), which is to Weber a special case of money accounting typical of commodity markets in general. Double bookkeeping of capitalist firms is the ideal typical case of capital accounting with its separate columns of debits and credits and the sum that remains 'under the line.' Because the objects of trade sold and bought in the financial markets are bonds or securities, and as such similar to one another, one could imagine that all that is expected from the participants is, in addition to having some initial capital at their disposal, that they have internalized the abstract logic and dynamics of the self-accumulation of capital.

The constitution of the capital markets, as well as modern capitalism in general, was undoubtedly the result of a long and complex historical process, as Marx and Weber were well aware of. As we know, investors in financial markets do not simply trade money. The investors of financial, or as some would prefer call it 'fictive,' capital do not invest their capital in buying various means of production, labor power, raw materials, or machines. Instead, they buy and sell specific financial commodities, starting from loan contracts and bonds to all kinds of derivatives, options, and futures. A derivative is a financial security, the value of which is derived from an underlying asset or group of assets, such as stocks, bonds, commodities, currencies, interest rates, and even market indexes. A future is a contract that allows its holder the right to buy a set of assets or raw materials at a pre-determined time in the future for a fixed price. Futures can normally be resold in the market and the capital invested in them realized at any time. These are social constructs, constructed with the help of specific mathematical models and market devices, effective as long as their constructed value is taken for granted by the market actors. What makes financial markets interesting is, in addition to their increasing importance in the global economy, the fact that hardly any of the rather newly established financial markets could exist and function at all without their specific and often highly technically elaborate market devices. Perhaps more than in any other kind of markets, cultural products analyzed by Karpik included, it makes sense to say that first market devices, judgmental or connoisseurial, as well as procedural or technical, constitute financial markets.

In 2007 Andrew Leyshon and Nigel Thrift published an article with a characteristic title: 'The Capitalization of Almost Everything: The Future of Finance and Capitalism.' They argued, using recent examples from the British economy, that financialization is essentially about capitalization through 'securitization.' Securitization is nothing new, but starting in the 1980s, almost everything could be used as a security, such as the future income of rent from council houses in UK. According to these authors, securitization is equal to the exercise of bundling up assets so that they will yield clear and defined income streams. In their example of council houses, this meant that the future income that consisted of the rents that the inhabitants of these houses paid to the owners were used, after the privatization of the houses, as a security to raise capital with which the houses were bought. Or rather, they were bundled into bonds, which

were made attractive to the investors by an appeal to the guaranteed and steady flow of future income. By freeing the capital originally invested, they allowed the owners to buy ever more privatized apartment houses. Their source of profits was 'a system of aggregating ground rent into a mass' (Leyshon & Thrift 2007: 106). Initially, the assets produced through securitization were usually backed by protected future incomes and revenues from large corporations and governments. Now financial companies were chasing

> new more closely defined asset classes of infrastructure including highways, streets, roads, and bridges; mass transit, airports and airways; water supply and water resources; solid waste treatment and disposal; electric power generation and transmission; telecommunications; and hazardous waste management—and the combined systems that these elements comprise (Leyshon & Thrift 2007: 101).

An extreme example of securitization was the pop star David Bowie's issuance of 10-year bonds, to be paid from his anticipated future royalties (Davis 2009: 56). Selling the bundled payoff policies from AIDS sufferers and elderly to investors can be mentioned as another creative, and in the opinion of many quite appalling, invention in financial markets (Davis 2009: 73). Financialization has not left the institutions of higher education intact either (Easton et al. 2016). Leyshon and Thrift (2007: 104) talk, not without good reasons, about 'hypercapitalization' in action.

According to Davis, another analyst of the rapidly growing financial markets, the basic function of financial intermediation changed fundamentally due to securitization, turning loans and other obligations into securities:

> Mortgages, commercial loans, receivables, insurance payouts, and lawsuit settlements could all be turned into securities relatively cheaply; financial firms had a strong incentive to maintain the flow of new issuances of these securities; and institutional investors around the world created a demand for them. A result was that the debt securities far outstripped the stock market in value (Davis 2009: 126–127).

Another recent and more notorious example of mass-scale securitization are the subprime mortgage-backed loans, which in 2007 caused the outbreak of the most severe financial crises since the Second World War. The specificity of these subprime loans was that they were high-risk loans with questionable securities backing them, launched by American financial institutions. The federal government supported them partly for political reasons in order to promote private home ownership among vulnerable and less well-to-do groups of the North American population. The novelty of these loans, and the cause of their vulnerability and final collapse, was that they were bundled together and sold as bonds in secondary financial markets with a promise of high dividends.

The complexity of these bonds, or bundled together assets in widely different categories of risks, meant that investors were not able to evaluate and measure their exposure to a particular asset. They were unable to analyze the 'correlation structure' of their portfolio (cf. Carruthers 2013: 541–242). According to Lang and Jagtliani (2010: 139), complex portfolios made it impossible to determine its subprime exposure in the CDO [collateral debt obligation] portfolio 'without looking through each of the bonds.' Therefore, the complexity and the risk of the products was widely underestimated. However, according to the authors, some more cautious investors were not tempted by them and 'some firms abstained from the mortgage-related CDO market precisely because it was impossible to reach back to the underlying assets' (Lang & Jagtliani 2010: 141).

As Esposito (2010) explained it, the idea behind these new types of securitization was to subject bank loans and other assets to the 'common law of liquidity' by transforming them into negotiable instruments and then applying the principle of fair value (Esposito 2010). The 'liquidification' of capital through freeing it from any concrete asset categories allowed its owners more freedom to dispose of it and reinvest it. According to Esposito, the procedure is as follows: First, the originating bank bundles together a large number of loans, often several thousand, even up to tens of thousands, in the form of a pool that is transferred to a third party, a legal entity known as a special purpose vehicle (SPV). The SPV then issues an asset-backed security (ABS), or a financial security having many of the same properties as a traditional bond. The SPV centrally processes the flows from the initial loans (interest and repayment a principal) and redirects them to the owners of the ABS. Any type of loan can be securitized in this way: mortgage loans, business loans, leveraged-buyout debt, consumer loans, credit-card overdrafts, and so on. Once repackaged, such assets are as a rule bought and sold by pension funds, insurance companies, and large corporations. They have ceased to be illiquid. (Esposito 2010: 260–261). However, this is only possible with the help of often quite complicated legal arrangements and mathematical-statistical instruments of calculation.

The extent of financialization, its forms and regulation by the state and the central banks, differs from country to country. For instance, USA and Germany are often presented as countries where the relations between banks and industry are organized in different ways. However, many methods and instruments have quite rapidly spread throughout the world, making the financial markets global.[1] In the USA, the growth and extent of financial capital during the last couple of decades before the last financial crisis 2007–2008 was quite spectacular. According to Johnson and Kwak (2010: 60), from 1980 to 2005, the financial sector grew from 3.5% to 5.9% of the US economy, measured by its contribution to GNP. Global financial assets grew from 12 trillion dollars, 120% of the global GDP in 1980, to 219 trillion dollars, 316 % of the global GDP in 2010 (Dulta 2018: 2). Most of this growth was due to the increasing financialization of economy and not to the growth of traditional bank loans to firms. Correspondingly, from 1980 to 2005, the financial sector profits grew by 800% while

non-financial sector profits grew by only 250% (both figures adjusted for inflation; Johnson & Kwak 2010: 60). Although they plummeted again during the financial crisis, they recovered quickly afterwards.

There are several reasons that financialization, with new economic, technical, and legal innovations making it possible to securitize and financialize almost anything, has reached such new and high records in recent decades. Leyshon and Thrift (2007: 100–101) point out the following four reasons on the supply and demand sides: First, it is often cheaper for large borrowers to raise capital directly from the capital markets through securitization of their assets than to borrow from banks. Moreover, by securitizing their income streams by selling 'futures,' the borrowers were able to realize these income streams early while at the same time externalizing at least some of risks (this was typically the case with subprime loans). In the capital markets, large institutional investors such as pension funds needed new investment targets and were able to diversify their portfolios by buying bonds based on securitized assets of various kinds. Finally, by facilitating securitization, banks were able to serve their clients while at the same time circumventing international banking regulations, such as capital adequacy requirements, that would otherwise limit the amount of money banks could advance in the form of loans. This was further encouraged by the slackening of the distinction that had previously separated commercial banks from savings banks.

Stockhammer's extensive list of the causes that promoted financialization is, in many ways, similar to Leyshon's and Thrift's but includes several additional elements. According to him, financialization

> covers a wide range of phenomena: the deregulation of the financial sector and the proliferation of new financial instruments, the liberalization of international capital flows and increasing instability on exchange rate markets, a shift to market-based financial systems, the emergence of institutional investors as major players in financial markets and the boom (and bust) asset markets, shareholder value orientation and changes in corporate governance (of non-financial business), increased access to credit by previously 'underbanked' groups and changes in the level of (real) interest rates (Stockhammer 2008: 184).

Stockhammer also refers to psychological changes and new ideological structures. The globalization of capital markets, as well as the transactions with exchange rates, can be added to the list: 'international exchange rate arrangements seem to be the key to understanding the accumulation and growth dynamics in the finance-dominated accumulation regime' (Stockhammer 2008: 184). On a more general level of international economic politics, Krippner (2011) argued that the financialization of the capitalist economy was a consequence of the post-Bretton Woods deregulation of financial markets, which was a response to the increasingly difficult political task of allocating scarce

resources of capital to competing demands. Krippner argued that the slackening of financial regulation in the 1970s was a political response to the problems caused by the high rates of both inflation and unemployment, together with the slowing down of economic growth. The widespread belief in the effectiveness of the self-regulation of capital allocation through the markets made it look legitimate: 'in eliminating interest rate controls in the U.S. economy, policymakers hoped to pass the politically difficult task of allocating capital between competing social priorities to the market. Instead, policymakers inadvertently freed the expansion of credit from institutional constraints, avoiding the need for allocation altogether' (Krippner 2011: 106; cf. Sulkunen's [2015] similar conclusion about the causes of de-regulation in Norway).

Financialization is certainly nothing new in capitalism. Rudolf Hilferding's *Finance Capital,* published in 1910, made clear some of the basic mechanisms of what he called finance capital:

> I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital. So far as its owners are concerned, it always retains the money form; it is invested by them in the form of money capital, interest-bearing capital, and can always be withdrawn by them as money capital. But in reality the greater part of the capital so invested with the banks is transformed into industrial, productive capital (means of production and labour power) and is invested in the productive process. An ever-increasing proportion of the capital used in industry is finance capital, capital at the disposition of the banks which is used by the industrialists (Hilferding 1981: 225).

In Hilferding's times, finance capital was still mainly in the hands of big banks, but he clearly figured out the essential nature of finance capital and its role in the capitalist economy. In addition to using old capital assets as a security to raise new capital, it makes capital liquid, in all forms easy to be realized as money. Shares, as well as many later and often highly technically complicated financial assets, can change owners, be sold and bought, without the transfer of any underlying 'real' assets, whatever they might be. In other words, property owners can liquidate their holdings whenever the need arises (Orléan 2014: 209–210). Derivatives are a clear example. As Esposito formulated it, 'one does not trade in goods—or assets, shares, or other units of finance. … The trade with derivatives is independent of the ownership of the basic assets and their value' (2010: 183).[2] In the end, there is no difference between money and capital while everything becomes liquid: 'Everything will be homogenized in an abstract stream of money' (Esposito 2010: 177). As a matter of fact, one of the main arguments in favor of the new instruments of financialization of capital is that, by making the capital markets more flexible, they promote capital movements directing investments into targets where the use of capital is

economically most effective, a claim that can be seriously questioned not least due to the repeated and serious financial crises.

To Hilferding (1981: 107–118), in addition to the growth of bank capital and its increasing importance, financialization had its origins in the establishment of joint-stock companies and in the demand of bigger capital investments due to the increasing share of fixed capital, invested in machines and real estate in industrial production, which tied up investors' capital for a long time. The industrial loans that banks mediated to productive investments were a natural answer to this demand. They differed from old commercial loans, which were basically targeted to finance the circulation of commodities and to cover the time it took for a merchant to sell the commodities he had bought from a manufacturer, allowing his stock to grow bigger and transactions more long-term. Typically, in addition to having the original industrial or commercial assets as their securities, both such loans and capital invested in stocks promise their owners or investors a rent or a share with a dividend that is independent of, or not straightforwardly related to, the amount of profits accrued to the capital invested in the production. The rate of profits or interest of this kind of 'fictive' capital varies according to the supply and demand of capital in the financial markets and is thus, at least partly, independent of the changes in the productivity and the rate of profit of industrial capital. This is the basic feature that makes financial markets self-referential; that is, the prices depend on the mutual expectations of the economic actors whose basic source of information are the fluctuations in the prices of bonds and shares. Financial markets are therefore more open to speculation by capital investors who sell and buy bigger amounts of shares or bonds depending only on their own price expectations, reflecting the expectations as well as the concrete behavior of other investors. Both by their own behavior and by anticipating the future behavior of their competitors, they come to influence the prices allowing the speculators to make profits—or lose their money—from the price fluctuations as if out of the air.

In analyzing finance capital, Hilferding had, quite understandably, in mind the state of the financial markets of his times, that is bank capital and the stock exchange or capital invested in shares which, even though it allowed investors to make profits out of financial operations, was in the end invested in productive, industrial capital. Today finance capital more poignantly lives a life of its own. By doing so, it has also changed the workings of industrial economy. In her article 'Making Sense of Financialization,' Natascha van der Zwan (2014), in the aftermath of the subprime mortgage crisis, referred to the new challenging research tasks posed by the new finance capital: 'A shift from industrial to finance capitalism … is a view of finance beyond its traditional role as provider of capital for the productive economy. Instead, studies of financialization interrogate how an increasingly autonomous realm of global finance has altered the underlying logics of industrial economy and the inner workings of democratic society' (Zwan 2014: 99–100). Finance capital has become even more

autonomous and no longer serves, at least not in any straightforward manner, the needs of industrial or other investments.

In addition to the new and multiple forms of securitization through derivatives, futures, and options, one of the novelties of modern finance capital is that it contributes increasingly to the financialization of the everyday life and the private economy of ordinary citizens. Home mortgage, consumer credit (credit cards), capital-funded pension plans, and other mass-marketed financial products—all unheard of in Hilferding's time—are all essential parts of this process (Zwan 2014: 111). As a consequence, ordinary citizens and consumers have become more vulnerable to the fluctuations of the financial markets (see e.g., Langley 2008; Harrington 2008; Hodson et al. 2014; Dixon & Sorsa 2009; Poppe et al. 2016). They are involved in the 'financialization of almost anything' (cf. Aalbers 2008: 151; Langley 2008: 139). According to Engel 'since the late 1980s, the focus of futures trading clearly shifted from the realm of commodities to the financial world. This went along with a changing audience' (2013: 564).

The 'loan paper' or credit contract is, as Hilferding wrote, an 'Ertragstitel,' a certificate that gives its owner a right to a profit that can be, to a great extent, independent of the activity of the 'real' economy or productive capital and the surplus value it produces. Marx wrote in his *Capital* that loan or bank capital makes the fetish character of capital perfect: it represents money, which gives birth to money as if out of nothing, thus making 'the pious wish of a treasure hunter true.' Capital can now celebrate its holy annunciation. Loan capital seems to give birth to new capital totally independently of the productive process, or the 'real economy,' as it is customarily referred to in today's political parlance. At the same time, Marx interestingly thought that a relation of debt is transparent, in contrast to the capital relation between the capitalist and the wage worker. It is personal and confidential and therefore seems to have more similarities to the feudal relationship than to a wage labor–capital relation that effectively covers its exploitative nature behind the exchange of equals (Marx 1973b: 392). However, this is not necessarily any more true of the new forms of financial capital. Large-scale financial transactions do not take place between concrete persons, and the rent income from capital often hides as effectively its real origins, as Marx thought of the origins of surplus value. The new derivatives are obviously not based on personal trust or on trust between clearly identifiable economic actors or organizations, as common bank loans were in the old capitalism. Their 'trustworthiness' is guaranteed by more complicated and impersonal methods of rating that are mostly performed by special rating agencies. Many studies see this very depersonalization of credits as one of the causes of the subprime mortgage crisis: the final, often international, investors who bought the bonds had no means of evaluating the trustworthiness and financial sustainability of all those original loan takers whose loans were bonded or bundled together as securities of the assets. As Kädtler summarized it, this new 'perspective on financial markets is the original one … enabling investors to make investments in the financial markets without having to look what

companies really do … Calculable risk did exactly not rely on understanding or even looking on business strategies but on interpreting statistics' (2011: 175).

In Hilferding's times it was common to speak of real estate developers as promoters, or 'Gründers,' who bought and sold real estate actively speculating on their prices and financing their investments using their initial acquisitions as a security in order to be able to raise new loan capital to be invested in new real estate targets. Leyshon's and Thrift's (2007) example of securitization of privatized council houses that started this chapter fits perfectly into what Hilferding and his contemporaries had in mind when talking about promoters. They could, with a rather small initial capital, end up owning or controlling a huge amount of financial assets invested in real estate, a system that worked out all right as long as the housing prices were on the rise and the land property used as security preserved or increased its value due to the very activity of the developers. In the opposite case, the whole pyramid structure of ownership threatened to collapse, as it often did in times of economic crises, when the house prices started to fall rapidly and the investors were forced to realize their assets for whatever price available. The same basic mechanism operates in other kinds of financial markets that, as we have seen, have become more common, diversified, and extensive.

Not everyone has seen financial speculators in housing or financial markets in the same light as Hilferding and many of his contemporaries did. As Engel interestingly pointed out, 'until the 1920s, most economists had hardly a doubt that speculation would improve the functioning of markets and decrease turbulence in prices. They considered futures markets to be the most highly developed and perfect form of markets' (2013: 560). The modern economic doctrine of the efficient market prices gives expression to the same belief. According to its basic hypothesis, in the long run, prices in financial markets reflect a security's intrinsic value. Profit opportunities emerge from temporal fluctuations around the intrinsic value, what this theoretical model perceives as mispricing. Supply and demand will always take care that the prices will eventually approach the intrinsic or real value of any security, thus guaranteeing the economic effectivity of the market. This should make it impossible in the long-term to get any extra profit from the price fluctuations because losses and gains will balance each other in the end (Beckert 2011: 144).

Engel doubts if it is possible at all to distinguish between the hedger and the speculator, that is, an investor who offers securitization by taking over risks and an investor who speculates with such securities and their associated risks. Hedging and risk taking, as well as profiting from it, are quite natural in the financial markets and profit is of course one of their main motivations. As a matter of fact, 'futures markets are thought to exist because of the need of hedgers, that is, of persons who wish to eliminate exposure to market risks' (Engel 2013: 565). They are willing, fully aware of the risks involved, to bear them on the behalf of other investors in the anticipation of extra high profits. At the same time, 'futures transactions are always a zero-sum game: Every profit

claimed by one party is the loss of its counter-party. The only motivation for speculators to participate in the futures market is to make profit, which has to come from other market participants, either speculators or hedgers' (Engel 2013: 566). Engel admits that it makes sense to speak of speculators as a special category of capital investors and to make a distinction between a speculator and a 'pure' investor or hedger depending whether they aim at reducing or increasing exposure to risk, respectively (Engel 2013: 570). However since such a distinction can only be based on the observation of the subjective motivation of the investor it is difficult, if not totally impossible, to identify with any certainty in practice. Therefore, in Engel's opinion, it 'becomes clear that a position in the market can never be objectively classified as either a hedge or a speculation: that is a matter of intention' (Engel 2013: 570). Stäheli (2007: 51), who analyzed the historical and conceptual similarities between gambling and financial markets, suggests a distinction between the speculators and 'serious' investors: the speculators are oriented towards the fluctuations of the market prices, selling and buying whenever they see a chance to make a quick profit, whereas the 'real' or more serious investors have the long-term productivity and growth of the firm in mind. Thus, the longevity of the investment offers more objective criteria to distinguish between an investor and a speculator than their subjective motivations. One of the reasons investors in financial markets often enjoy a bad reputation is that speculation is easily associated with gambling and deception. The line between speculation and deception is, like that between speculators and 'serious' investors, obviously often quite difficult to draw. One could even 'speculate' that with the rapidly increasing number of quite technically advanced and complex financial assets, it has become even more difficult. Therefore, there are very good reasons to agree with Harrington's suggestion that 'the theory of contemporary capitalist markets must include a theory of deception' (2017: 246).[3]

Johnson and Kwak (2010: 65–73) list four new financial products as the main instruments actively promoting financialization: 1) mortgage-backed securities, 2) junk bonds or bonds that were rated below 'investment grade,' 3) quantitative arbitrage trading or buying one and selling the other security, waiting for prices to converge, and 4) modern derivatives market, which began with the interest rate swaps and credit default swaps made possible by the new methods of calculating the value of the securities and the hedges used to protect them. One could add other financial inventions, as well as the renewed or increasing use of old ones, to the list. However, what unites them all and has definitely changed the modern economy is that contemporary financial markets and instruments are all about risk management. Securitization has not diminished, even less abolished, economic risks but has instead turned risks into marketable commodities: 'In a risk economy, the economy, as it evolves from day to day, is fabricated to a much higher degree than before from expectations. Consequently, it becomes not necessarily more or less stable; it just generates instability in a different way' (Engel 2013: 574). Participants of futures markets or

hedgers, as well as the investors in other kinds of modern financial assets, are prepared to expose themselves to additional risks:

> The introduction of futures markets leads to an increase of combined individual exposure to risk. … The average exposure to risk increased, but at the same time, the quality of exposure changed. Futures trading allows to a certain degree for a more active, deliberate composition of the exposure to risk, as a result less unwanted and more wanted risk can be borne' (Engel 2013: 572).

Instead of making financial markets more predictable and controllable through securitization the markets 'became more esoteric and related policy questions more technical' (Johnson & Kwak 2010: 94; cf. Carruthers 2013: 539–540). This is accompanied by the globalization of financial markets and the deregulation of banking in the USA, the European Union, and elsewhere. (For a study of the national varieties of financialization, see Aalbers et al. 2011.) To put it simply, 'calculable risk did exactly not rely on understanding or even looking on business strategies but on interpreting statistics' (Kädtler 2011: 175). In the world of finance, new risk markets are constantly actively created and promoted with the help of new market devices: 'promising risks are not only searched for but actively manufactured and even traded' (Engel 2013: 564). Such devices are legal and economic innovations actively developed and promoted by economists and corporate lawyers. Moreover, their functioning depends on the degree of public regulation or deregulation of the markets by the state authorities and the central banks. Therefore, they create almost laboratory-like conditions for analyzing the establishment of new markets.

Market devices and the commodification of risk

From the point of view of the main argument of this study, it is important that the new financial markets are established with the help of specific market devices, risk ratings, and risk analysts that first create homogenous commodities out of the diversity of financial assets with principally quite indeterminate value and associated risks. They differ from one another as far as the degree of the involved risk and their future dividend is concerned, both in principle unknown to the investors. First, after solving the inherent uncertainty of their risk-related value and making them thus commensurate, they can be traded on the same market. When discussing the independence of financial markets, Engel comes to the conclusion that first the pricing mechanisms—or their specific market devices—constitute them: 'Pricing in futures markets is not purely self-reflective and blind to the economic process, nor does it simply forecast the course of economic process; it governs the economic process' (Engel 2013: 574).

Derivatives are nothing but commodified risks. This risk is principally unavoidable when binding oneself in the present to a future that is always principally open and indeterminate. One can never know what it has to offer (Esposito 2010: 161). According to Esposito (Esposito 2010: 159), the selling of contingency begins with options; options give rise to the problem that one should be able to determine the specific price of the contract of derivatives, that is the price of the risk involved, and this risk depends on and is related to the future. In order for the markets of futures to be able to function at all, the prices must be determined. This is a necessary condition in making a contract into an object of selling and buying. The problem is not easy to solve because the decisive factor is not only the determination of the future prices, but the costs related to the risk.

The important role of market devices in pricing the objects exchanged in the market of financial derivatives becomes particularly clear when studying the emergence and history of the contemporary futures exchange. As Beckert points out, referring to Mac Kenzie and Millo (2003),

> the market for financial derivatives was strictly limited until the early 1970s, partly because of lack of knowledge on how to price derivatives traded on future markets. Only advances in options pricing theory, especially the development of the Black-Scholes model, and the emerging computer technologies that allowed traders to make the theoretical insights from finance theory operational in their trading practices, provided an intersubjectively shared understanding of the 'correct' calculation of prices (2011: 771–772).

As Beckert understands it, the developments of the finance theory allowed for the constitution of the market and 'performed' it at the same time (Beckert 2011: 572).

By turning the very risk into a tradeable commodity, financial 'risk economy' is an integral part, if not the very core, of the highly individualized risk society as conceived by Anthony Giddens (1991), Ulrich Beck (1992), and other sociologists in their Zeitdiagnoses at the turn of the new millennium. Investors are now buying and selling assets, the value of which are determined by ratings. They are socially constructed in a process that is principally not so different from the one used in rating restaurants in restaurant guides, wines in wine guides, or in counting impact factors in academia. By rating the risks of capital invested in futures or in bundled assets, the rating agencies, mostly with the help of the mathematical-statistical methods of calculation, homogenize them, making qualitatively and principally different assets comparable, as far as their securities, the risks involved, and their future dividends are concerned. All these ratings show a similar tension between qualitative—'aesthetic' or subjective —expert judgments of value and standardized, statistical methods that produce indexes using various kinds of calculative instruments. Rating agencies usually

rely both on the qualitative judgments of their experts and on mathematical risk models.[4] These are often technically more advanced instruments than the ones ordinarily used in rating cultural products. Following Karpik's classification, the regimes of financial markets thus established are expert regimes that rely on the judgment of the experts, reached with or without the help of mathematical models, or popular opinion regimes, typical of the mass market of ordinary investors, who constantly imitate each other (cf. Orléan's mimetic principle), or a combination of both. They can also share elements of mega regimes when the extremely big sales figures of some financial assets become, in the eyes of the players in the market, the best guarantee of their exceptionally high value.

The establishment of the new financial markets with the help of ratings can be compared with the historical emergence of the market of life insurances and the founding of insurance companies marketing them. They demanded an advanced system of risk assessments utilizing statistics of life expectancies. However, as Zelizer (1979; see also Baker & Simon 2002)) showed in her study of the emergence of the market of life insurances in the USA, they also presumed something more principal, a cultural innovation or a rather a profound moral transformation that first allowed the pricing of the priceless, the human life.[5] The distinction made between gambling and investing in options was an equally important conceptual—political and ethical—innovation, which first legitimized the option exchange.

MacKenzie's and Millo's (2003) account for the historical origins and development of the derivatives market in the North America is extremely interesting and illuminating from the point of view of the social processes constituting markets in general. The legalization and spread of the derivatives trade was a relatively long process in which legal experts, economists, the leading representatives of the futures exchange, as well as politicians and state regulators took active part promoting their own ideas and interests. As the authors show, the mathematical-statistical Black-Scholes model played a decisive role in legitimating the derivatives market by proving that it was possible to calculate seemingly objective prices to the derivatives. Therefore, one could argue that the market differed principally from illegal gambling despite the fact, which raised serious suspicions, that no concrete objects changed hands in the process and the exchange did not terminate in the buyer's possession of the underlying objects traded. One could, admittedly with some reservations, compare the emergence of the options market—or modern financial markets in general—to any cultural field of modern art as analyzed by Bourdieu. In the field of modern finance, in the beginning, a relatively small group of experts played a role corresponding to other cultural vanguards, making its own cultural construct—the Black-Scholes model in particular, with its specific value standards—the legitimate one. In the field of finance, the participants, individuals and organizations, are not mainly accumulating their cultural capital, as they are, according to Bourdieu, in a typical field of art, which under certain conditions can then be exchanged into economic capital following a specific, and mostly implicit,

rate of exchange. Actors in the field of culture do not simply and straightforwardly accumulate economic capital. As MacKenzie and Millo (2003: 117) have shown, even in a highly competitive field like high finance where egoistic interests openly prevail, the participants develop a moral economy or etiquette of their own, with its own standards of goodness and social status as well as tacit rules of fair play that does not exclusively reflect their economic performance and success. Expert knowledge and competence seem to contribute to the status—or the symbolic capital—in this specific field like in any other. The status can be realized in economic profits too, but it can act also as an independent motivating force. Just as in any cultural field, the relative amounts of cultural and economic capital of an individual do not necessarily correlate strongly. The best broker, the one who enjoys high esteem among his colleagues, is not necessarily the one who makes the most money faster than all others—although that certainly helps—but the one who plays the investment game best, mastering the rules of the game with grace and being able to improvise, turning it all almost into an art.

The social mechanisms of cultural and economic competition in the newly emerged field of finance differ from those of cultural fields—or social worlds—at least in one important respect: economic action is openly instrumental and self-interested. It does not even have to hide behind its seeming disinterestedness; its real goal is to make more money. On the contrary, at least ideally, the principle of 'l'art pour art' rules in the cultural field of art, and its activities are typically characterized by a 'disinterested intentionality.' The economic gains and social status they might bring along are thus rewarded and enjoyed as an unintended by-product. Compared to cultural fields or social worlds, social movements are instrumental, organized, and goal-oriented. One could therefore argue that they could serve as a better model in analyzing the advent of such social formations as financial markets. In his study on the historical development of the nouvelle cuisine in France, Rao (2008) contrasted social movements with fashion, but he could just as well have contrasted them with cultural fields or social worlds. According to Rao (2008: 83), 'as a motor of collective action, social movements differ from fads and fashions in that they are organized efforts to reorganize a social field and result in enduring social change.' Studying the history and the 'victory' of the nouvelle cuisine over classical French cuisine, starting in the 1960s in France and its spreading later into the world of high-class restaurants all over Europe and North America, Rao found out how its advocates succeeded in creating a 'new symbolic environment for chefs and a public to appreciate the new logic and identity' (Rao 2008: 86). He conceptualized the cultural actors that radically transformed international haute cuisine as a social movement that had its own leaders, followers, and propagators. In many ways, however, it could just as well be interpreted in the spirit of Bourdieu as the artistic vanguard of the cultural field of haute cuisine. Their explicit aim was not to make money in the first place but to increase their creative space as restaurant chefs, turning them into real artists by liberating

them from their old role as reproducers and copiers of traditional recipes. Compared to this vanguard of French chefs, the social process that changed the trade in financial assets and options definitely comes even closer to a social movement, with its explicit goals of reorganizing financial markets. The new markets allowed the participants to make more money, but just like the French restaurant chefs, they did not legitimate their goals exclusively with their own economic interests but also claimed that the new financial instruments made the capital markets more effective and conducive to economic growth, and in the end, promoted the common good.

Economic sociologists have discussed whether financial markets could and should be understood as performative and whether, for instance, the statistical models, which first made the new option markets possible both legally and economically by predicting the prices in the markets, were self-fulfilling.[6] If the market actors relied on these models and oriented their actions accordingly, would not this in fact guarantee the success and empirical validity of the models, as well as make them functional? The conclusion of MacKenzie's and Millo's (2003; MacKenzie 2008) comprehensive, empirical study of the historical origins and functioning of the financial derivatives market in the USA since the 1970s proved that the development of the prices did follow, after the adoption of the Black-Scholes model and the development of computer technologies that made the calculations possible, the model's predictions quite closely. The model, 'reduced the complexity of option trading (different stocks with different, changing, prices; puts and calls; different expiration and strike prices) to a simple common metric' (MacKenzie 2008: 168). The model thus offered a 'formula how to determine the price of risk in a seemingly objective way' (Esposito 2010: 162). In the end, however, the actual market behavior departed quite drastically from the predictions—or 'advice'—of the model. In the model, the prices depend on the observed historical volatility, or price turbulences, of the market (cf. Esposito 2010: 163). Technically, the model failed because its basic parameter, implied volatility, could not cope with abrupt changes that were remarkably bigger than statistically predicted. According to Esposito, this is a general feature of economic markets and financial markets in particular: statistical inferences from observed trends are not a reliable guide to the future. To her, financial markets are, in this sense, a primary example of an important general feature of the modern society: 'the existence of several different observers' perspectives which have an impact on each other, or, the decisive role of the observations of the second order' (Esposito 2010: 111).

The importance of the adoption of the Black-Scholes model relies not on whether it was performative but rather whether the markets of derivatives would have been possible at all without its pricing of assets, which the market participants take as their point of reference. Pondering whether and to what extent economic models can be performative, MacKenzie distinguishes three levels of performativity: He calls the first, weakest level 'generic performativity.' According to MacKenzie, economics qualifies without a doubt for this role

because it presumes 'only' that 'it is used, not just by academic economists, but in the "real world": by market participants, policy makers, regulators, and so on' (MacKenzie 2008: 17–18). Whether the use of economic models is effective or not does not matter. The next level, 'effective performativity,' is more demanding:

> For the use of a theory, a model, a concept, a procedure, a data set, or some other aspect of economics to count as effective performativity, the use must make a difference. Perhaps it makes possible an economic process that would otherwise be impossible, or perhaps a process involving use of the aspect of economics in question differs in some significant way (has different features, different outcomes, and so on) from what would take place if economics was no used (MacKenzie 2008: 18).

Another way to express the same idea, adopted in this study, is to say that theories or models of financial economics are an essential part of the constitution of the markets. In this sense, they could be compared to the market devices analyzed previously. Such devices can equally well be called 'effectively performative.' They 'perform' nothing less than making the objects of trade comparable and commensurate. MacKenzie points out also that some trading practices, by extending the limits of comparability, constitute markets:

> Indeed arbitrage constitutes markets, for example helping to determine their scope and the extent to which they are global: that international gold arbitrage is possible creates a world market in gold with a 'world price,' rather than geographically separate markets with different prices (2008: 86).

MacKenzie names his last and most demanding level of performativity 'Barnesian' (after Barry Barnes [1988]). An economic model would be performative in the Barnesian sense if its use would alter the economic processes or their outcomes to better correspond to the model (MacKenzie 2008: 19). It is obvious that if this were the case, the performance of economic models used in financial markets far outsteps that of any other market devices in use, for instance, in the cultural markets, which do not as a rule predict the outcomes of economic processes, such as prices, more concretely. However, MacKenzie comes to the conclusion that the empirical evidence to support the conclusion that some economic models would be performative in this strong Barnesian sense is not very conclusive, partly because of the obvious difficulties in achieving reliable and independent data, as well as the related measuring problems. The most obvious examples that MacKenzie has identified are, in fact, examples of 'counterperformativity.' In these cases 'the effect of the practical use of a theory or model may be to alter economic processes so that they conform less well to the theory or model,' and therefore 'the empirical accuracy of the aspect

of economics in question is undermined' (MacKenzie 2008: 19). The following examples give a more concrete idea of what kind of processes MacKenzie has in mind in this case:

> One instance … is the way in which the development of index funds—an expression of the efficient-market view that systematic success in stock picking is unlikely—seems to have created an anomaly from the viewpoint of efficient-market theory: the increases in price that typically followed inclusion of a stock in a major index. However, by far the most significant possible instance of counterperformativity is the role of portfolio insurance (which was based, albeit loosely, on a Black-Scholes-Merton, in other words a world in which the assumptions of the Black-Scholes-Merton model were valid) in exacerbating the 1987 crash and thus undermining the Black-Scholes world (2008: 259).

The question of the performativity—and counterperformativity—of economic models, or any other judgmental devices, is no doubt important, not least of all from the point of economic policy. Some cases of the effects of the use of market devices, analyzed by Karpik, come quite close to the Barnesian strong performativity. If, for instance, the wine dealers determine the prices of their wines after reading the reviews published in Harper's wine guide (Karpik 2010: 216) or if the publication of the ticket sales of blockbuster movies makes a major impact on its popularity and ticket sales, one could, with some reservations, speak about performativity even in the strongest 'Barnesian' sense. Isolating the specific impact of the device from other possible causes in order to draw definitive conclusions would, in most cases, be difficult or almost impossible in practice.[7]

To Hilferding, finance capital was equal to the emergence of a new kind of capitalism in which finance capitalists, via big banks, would gradually come to dominate the whole economy, eventually centralizing it all into a huge 'general cartel' that would, in the end, abolish all market competition and regulate the prices. The only antagonism left in capitalism would concern the distribution of income. Lenin, in his *Imperialism as the Highest Stage of Capitalism* (1967 [1917]), adopted this basic insight about the future of capitalism from Hilferding; however, he emphasized that cartels could never completely abolish economic competition and conflicts, only change their form and extension. Monopoly capitalists would compete with each other in the future too, but in a way that would allow them to earn extra monopoly profits at the cost of wage workers and other capitalists. Reminiscent of Hilferding and Lenin, the modern analysts of the causes and significance of finance capital have pointed out that ongoing financialization is accompanied by decisive changes in the power relations between different groups of capitalists and managers. The managerial principle of shareholder value can be seen as both one of the reasons and causes of financialization. According to this interpretation, the

principle of shareholder value has, since the 1980s, come to dominate the managerial thinking of firms. One of the important consequences of the recent developments is 'that financial gains are not reinvested in the firm's productive facilities but distributed to shareholders through dividend payouts and share buybacks' (Zwan 2014: 107). The owners and directors do not have the long-term interest and stability of their firm in mind but mainly the value of their shares. The question that the author poses is similar to the one that occupied Hilferding some hundred years ago: Are we witnessing the victory of the rentier? (Zwan 2014: 105). The leading motivational force of the firm is to guarantee its shareholders as high and secure dividends as possible, distributing the highest profits possible to its shareholders and not, for instance, investing them in the future of the firm. Scholars of shareholder value shift their attention to the social classes within the corporation: managers, shareholders, and employees. To guarantee a high market value of the firm and to guarantee—by financialization—the fluent realization of the capital invested are the main responsibilities of a director of a modern corporation. All this demands that the assets of the invested capital are liquid. The professional executives and managers of big companies have benefitted from these developments in the form of higher salaries and bonuses, and so have investment banks, dealers, and brokers. It can be argued that financialization has been one of the main reasons that the distribution of wealth and income has become more skewed in the USA and Europe in favor of the big capital owners (Fligstein 2008). These studies reveal that financialization has particularly benefited managers of large corporations, as their remuneration is tied more directly to the corporation's stock market performance.

Rudolf Hilferding came to the conclusion that what he was witnessing in his times was not the rule of bank capital alone but that of bank and industrial capitalists who had, through financialization, joined forces and capital in order to make the best of it all. Different persons and companies specialize and operate in different capital markets—industrial, bank, or finance—but in practice these functions are often closely intertwined and, for instance, big industrial companies and comglomerates, as well as other institutional investors like pension funds, operate actively in the financial markets, making a big part of their profits out of their investments in finance capital. Financialization has effectively homogenized different kinds of capital assets and made them liquid. This has created a growing demand for new financial products and markets that could not be possible at all without an intensive development and effective use of both procedural and judgmental market devices. The stock exchange and stock market indexes were among the first, and the Black-Sholes is technically the most advanced. The increasing numbers of market analysts and economic experts prove that the markets are equally in need of the connoisseurial, basically aesthetic, judgment of taste of the market analysts.

CHAPTER 8

Conclusion

The basic truth of economic sociology is that all economic institutions, markets and money included, are socially embedded. Therefore, one cannot understand their functioning properly if one begins with the assumption that economic actors are private individuals related only through the exchange of their commodities and who act rationally, realizing their goals according to their private preferences. Sociologists instead emphasize that one must take into account their roles and social identities, their specific positions, and relations of interaction that they occupy in the economic institutions and the society at large. Their social positions, among other things, have a decisive impact on their preferences that are not constant but change over time, depending on their social networks, previous, choices, and life histories. In other words, economic preferences are not endogenous but exogenous. It is equally true, however, that in modern society—and in modern society alone—economy is differentiated from other social institutions and becomes a self-referential system that reproduces itself according to its own rules. Therefore, to understand it properly, one needs specific concepts and theories that are not necessarily valid in other social systems.

The science of economics, which has become increasingly separate from other social sciences, considers itself an adequate expression of the economy. In its confrontation with economics, classical sociology was inclined to admit, with some important reservations, that this was in fact the case. One could even think that the economic reality of the modern capitalist society approached, as if asymptotically, its theoretical expression, the science of economics. Furthermore, the more developed the economic system becomes, the more it will stand on its own feet, leaving behind the crutches of traditions and customs that supported it from the start. To Marx, who wrote his *Capital* a couple of decades before the advent of sociology proper, the science that he called vulgar economics was an adequate reflection of the self-awareness of the economic actors of a capitalist economy. As such, it allowed them to function adequately in the economic markets. Max Weber, who—more than many other sociologists—took an explicit stance on the economic thinking of his times, obviously presumed that with the maturing of capitalism, the economic action of the individuals would become rational to a greater extent, following monetary accounting more closely and making the rational calculation and evaluation of the means and ends possible. Therefore, formal rationality is the key to

understanding economic action in modern capitalism. At the same time, this was not the whole truth: understanding the deeper meaning of the capitalist markets presumed that one seriously took into account the historical and social conditions that made the capitalist market economy possible and analyzed its wider social and cultural consequences.

This is the task that the present study reserves for sociology, with the important addition that recognizing this conditionality does not leave the analysis of the economic relations and the functioning of economic institutions intact either. It is therefore quite essential to develop a sociological theory of the basic economic institutions, markets, and money, which does not only complement economic thinking but also questions and modifies it in some important respects. As argued in this study, the key to understanding modern economic institutions, markets, and money is to pose the question: What, after all, makes economic objects of exchange comparable and, consequently, commensurate? This is the foundation of the capitalist economic relations, without which they could not exist at all. Precapitalist markets using money as means of exchange have undoubtedly existed before in history, but premonetary markets with the equal exchange of commodities would be a contradiction in adjecto. The equal exchange of commodities on the market of anonymous economic actors presumes that the goods produced and services provided have an objective value and a price.

As argued in this study, in order to be able to develop a theoretical understanding of the economic institutions, economic sociology must take the claim of their historical specificity seriously. The classical sociologists, most notably Max Weber and Georg Simmel, recognized this historical specificity of the economic relations in modern capitalism. In particular, money and monetary accounting offered Weber the key to understanding the cultural meaning and historical destiny of this specific economic order. To Simmel, money was a 'mean of the means,' and as such an important concept in his relational sociology, which took the various forms of social intercourse as its specific object of study. It was both a central symbol of and played a crucial role in the objectification of culture that takes place in modern society, posing a threat to the subjective culture of individuals. Weber never explicitly posed the question, nor answered it more systematically, of what made the objective prices possible that allowed for the formal rational action, in the form of monetary and capital accounting, typical of capitalism. Weber obviously got the idea of the importance of accounting from Knapp's state theory of money. In his *Philosophy of Money,* Simmel, in his turn, developed a theory of value of his own, borrowing elements from the Marginalist economics in analyzing the social conditions of the use of money, pointing out that it was relational in two ways, between the subject and the object and between the objects of exchange. He did not really solve the question of the objectification of value, either. To him, the formation of economic values was a special case of the general process of valuation.

It was Karl Marx who posed the problem of the comparability of the objects of exchange most explicitly in analyzing the 'dialectic' of the value and money form of commodities, or their 'moneyness.' What is it that makes the products of labor take the form of value, and express their value in money? In posing the question, he emphasized the genuinely social origins and character of value. As he argued, only in an economy consisting of private producers related to each other through the exchange of the products of their labor do they take the form of value and express it in objective monetary prices. Consequently, their value is a social construct and not any natural substance. At the same time, Marx argued that in order to be exchanged, the different products of private labor become social and must be comparable and commensurate. Therefore, they must possess a common substance that allows comparing and measuring their relative value on a common stock. As is well known, Marx, following the classical political economy of his predecessors, thought that this common substance was human labor that was incorporated in all its products. He reached this conclusion partly via exclusion: as use values, the products of labor obviously differ from each other qualitatively, and therefore it is not possible to compare their use values in quantitative terms. The problem with his explanation is that the labor of each individual worker that is incorporated in its products is always concrete and differs both qualitatively—in kind—and quantitatively—in its intensity—from case to case. Nothing exists that would be common to all types and individual instances of labor. General labor is, just as all general concepts, an abstraction but, in contrast to such typical abstract concepts like the fruit or the animal, it is to Marx not simply a 'thought' abstraction, the result of the process during which an observer eliminates in his thinking all unessential features of a particular phenomenon until only the most relevant, as if its true essence, remains. As Marx argued, abstract labor—and value—is instead a 'real' abstraction, the result of a process that somehow takes place in the social reality itself when the products of different kinds of labor meet each other in the market in order to be exchanged and realize their value. This means that general, abstract labor as well as its result, abstract value, are, in fact, social constructs. A few of Marx's followers and interpreters, most notably Isaac Rubin (1973) and Franz Petry (1916), pointed out the importance of the social conditionality of value in Marx's reasoning, but it was lost to the majority of Marxists because they interpreted Marx in the spirit of his predecessors, classical political economists, an interpretation undoubtedly not alien to Marx either. The problem with Marx's labor theory of value, as well as his analysis of the value and money forms, is that they become easily functional or even circular: in order to be exchanged in the markets, the products of labor must have a common substance that makes them comparable, and they become comparable only because they are exchanged in the market. As a consequence, value is both a natural substance of things exchanged and a social construct. The reasoning is not, in some respects, all that different from the functionalist

explanation of the advent of money, common both in the political economy and the neoclassical economics, according to which money had to be invented because it makes the exchange of commodities more fluent or, to express it in the parlance of modern economics, reduces their transaction costs.

This study does not claim to have a final solution to the 'secret' of value and money. Nevertheless, it takes the centrality of the question of comparability and commensuration of the commodities to the constitution of the capitalist markets seriously, as well as the social processes and formations that make it possible. The Marginalists and their followers, the neoclassical economists, presumed that the buyers are fully informed about the quality and, consequently, of the relative utility of the goods bought and sold on the markets. To Marx, the use value of the commodities exchanged was no problem either: It depends on their capacity to satisfy human needs that should be self-evident to every normal person. Economic theory recognizes that economic actors are often not in possession of complete information about the objects of trade and has developed ways to handle that. However, the problem becomes more complicated and serious if we recognize that in many cases, the markets are plagued by a more principal quality uncertainty that is not mainly due to the lack of reliable information. This is true of the objects Karpik (2010) calls singularities, mainly goods of culture and personal services. As he formulated it, the multidimensionality of singularities makes their comparability often difficult, if not completely impossible. The judgments of taste concerning their quality and worth face the same problem as in Kant's famous antinomy of taste: how can an evaluation of the beauty that cannot consequently refer to any shared rules and objective standards of taste have universal validity and be shared by others. The appreciation of works of art offers the best example of what Karpik has in mind. Although one can often give good reasons for one's judgments of beauty and sometimes reach an at least provisional agreement about it, one can always find other interpretations that are equally valid and good. The taste preferences of the individual consumers in the economic markets of singularities are indeterminate and highly unstable because there is no way of knowing the 'real' quality and worth of the objects of exchange. There is no standard of goodness to compare or measure their worth. The judgments vary from time to time, from one situation to another, from one observer to another. They could just as well be otherwise. Without any remedies available, such a state of affairs would lead to a market failure.

The solution that Karpik offers to the dilemma of quality uncertainty includes various market devices, from critiques, appellations, and guidebooks to top ten lists, sales figures, and literary prizes. These, as well as the opinions distributed through personal networks, give support and guidance to the taste of the individual consumers without being all too binding and robbing the consumers of their freedom of choice. The market devices constitute different market regimes (authenticity, expert, popular, and mega regimes), which all follow their own logic of functioning, including their market competition and price formation.

Therefore, there is hardly anything like the standard market of economic theory, trading with homogenous and freely substitutable goods or services; it is a rare exception rather than the norm.

What this study adds to Karpik's analysis is twofold: in the modern, increasingly aesthetisized markets of consumption, the problem of singularities and their principal quality uncertainty does not restrict itself to cultural goods and personal services, but easily concerns almost all kinds of markets, including many durables, cars, PCs, cell phones, and the like. Therefore, it is quite justified to say that they are all in the need of their market devices that first constitute the market regimes of their own. In other words, they are, at least to a degree, aesthetic markets. However, in contrast to the markets of culture and art, many markets also rely on other kind of devices than connoisseurial, based on the aesthetic judgments of taste. These other kind of devices are what Blank (2007) calls procedural. They are, as a rule, more objective and rely on some technical standards of goodness or, as in the case of the financial markets, on advanced mathematical-statistical methods of calculation. However, just like the connoisseurial devices, they take into account only some aspects or dimensions in comparing their objects and compress them into some measurable variables. Despite their seeming objectivity they are just as much social constructs as Karpik's aesthetic or connoisseurial devices. As such, they could just as well be otherwise. Their seeming objectivity results from the fact that in many cases, professional experts have been active in constructing them and thus eventually guaranteeing their validity and legitimacy. These two principally different kind of market devices do not exclude each other. Many markets can rely on both of them at the same time. Financial markets offer a good example. They make often use of both advanced mathematical-statistical models of calculation and rely on the judgments of their market analysts, who are always, however well informed they might be, to some degree subjective. The market devices can also contribute to the differentiation of the markets into a more restricted status, or luxury, market and a popular, mass market.

The role of social status, which the producer and his or her produce enjoys, has been a traditional object of study in economic sociology. It is well-known that status can have a decisive impact on the functioning of the markets, including their price formation leading, for instance, to a situation where higher price is taken as a sign of the higher quality of a commodity, and not vice versa. Rising prices can almost paradoxically lead to an increase in the demand. Status hierarchies create quality differences or can be identical with them. Status markets can therefore be added to Karpik's list of market regimes, partly overlapping with his expert and authenticity regimes. They can rely on both impersonal and personal market devices. Status hierarchies and status competition, both on the side of the producers and the consumers, can operate in all kinds of consumer goods markets, from cultural goods to financial assets, and have an impact on their pricing as, for instance, Podolny's (2005) and Aspers's (2010) empirical and historical studies have shown. Pierre Bourdieu's fields of culture are arenas

where 'struggles' over the good and legitimate taste are waged. They are, per definition, relatively autonomous of economic priorities. Their peculiarity is their unintentional intentionality. Bourdieu's theory of cultural distinctions and fields of culture is united with Karpik's analysis of the quality uncertainty by the centrality of the judgment of taste. The struggle over the good and legitimate taste contributes to the preservation and renewal of status hierarchies and social privileges but, at the same time, it effectively hides its social function in the struggle for power behind the gratuitous cultivation of the good taste. What makes Bourdieu's theory of the fields of culture particularly interesting from the point of view of the analysis of economic markets is their close adherence to the status markets, in which the relative value and quality of goods is based primarily on existing status hierarchies among the producers and the consumers. One can therefore apply Bourdieu's theory of cultural distinctions and the three forms of capital, economic, cultural, and social, in analyzing the emergence and functioning of the status markets of various kinds. Status markets, a well-established object of study in economic sociology since Thorstein Veblen's classical study on conspicuous consumption (1918), can thus be placed on the same theoretical platform with the markets of singularities. Their more systematic analysis also adds more flesh to Orléan's (2014), rather general, considerations of the role of emulation and imitation in the determination of economic value.

However, Bourdieu's fields of culture are only one alternative among the social formations of taste that operate in the consumer goods markets. The other two are fashion and social worlds. Fashion and social worlds are play worlds that do not serve any outer purpose. They are both aesthetic formations. Many leisure time activities, such as hobbies or sports, are typical social worlds. The main criteria of a social world are that one can identify its core activity, or activities, what belongs and does not belong to the world in question, as well as what makes a performance good or better than another. A social world has its own—mostly tacit—rules of conduct and standards of worth. Therefore, it can offer a solution to the quality uncertainty plaguing many markets. The standards of goodness are mostly not generalizable, however, outside the often rather narrow 'borders' of a particular social world. Therefore, their economic importance is somewhat limited. Fashion is a setter of taste trends guiding the consumers' choices in a more or less binding way. It operates in many big economic markets. It is undoubtedly economically functional in capitalism by making perfectly useful objects obsolete, but this does not explain how it succeeds in alluring the consumers, why they follow its seasonal or other kind of regular changes more or less enthusiastically. There is no practical reason why something is in fashion—it could just as well be otherwise. There is no way of predicting what will be in fashion in the future. Fashion is not by any means restricted only to the clothes market but with its regular seasonal cycles, fashion shows and exhibitions, fashion journals and journalists, and professionals of all kinds, cultural intermediaries included, it is much more firmly institutionalized in clothes markets than in other markets. The economic relevance and

weight of the social worlds and fashion varies a great deal from the relatively modest or limited weight of the social worlds to fashion's almost overwhelming impact on the markets of many consumer goods.

With the analyses of the three main social formations of the collective taste formation, fashion, social worlds, and fields of culture, it is possible to show the main social processes that economic markets rely on 'spontaneously,' which the economic actors can, in many cases, make active use of. These social formations operate not only, or not even predominantly, in the economic markets. However, whenever operative in economy, all three formations have a direct impact on the market structure and price formation, both in need of more detailed analyses in the future. It is important to note here that these three social formations explain the social mechanisms and processes that are active behind the formation of the market regimes, their distinctions of taste, and the formation of a common taste. Without them market devices could not operate properly.

In the neoliberal economic policy, which has dominated European and Northern American politics reaching to the rest of the world too during the last decades, markets play a central role. Market competition is relied on (or at least so it is firmly believed) to take care of not only economic efficiency but also many social problems. Public services, from education and transport to health care and care of the elderly, are increasingly privatized and outsourced. The politicians and economists 'market' private markets as offering a freedom of choice to all the citizens. Markets do not always emerge spontaneously, nor can they be created overnight. Often the results do not match the great expectations either. The markets are not uniform, and their conditions vary considerably from one case to another, to such an extent that one can hardly speak about them as any homogenous social formation at all. As a concession to the historical school of economics that tended to deny the relevance of general concepts and laws in economy and human life in general, one could say that there is hardly any such thing as a market sui generis. However, as argued in this study, all economic commodity markets, in order to function at all, must solve the same problem of comparability and commensuration of their objects of exchange. The science of economics makes a distinction between free competition and monopolistic or oligopolistic competition, depending on the degree of centralization of the markets. As many economists are ready to admit, 'ideal typical' markets of free competition are in reality rare exceptions, if they exist at all. Such fields of economy as barber's shops that consist of a multitude of small enterprises are often taken as examples of free markets, but even they show signs of increasing centralization in the shape of leasing and forming of commercial chains, not to mention the differentiation of their market through increasing aesthetization. They also become differentiated into status markets and standard markets. As Fligstein (1996) argues convincingly, the normal situation in most markets is that a few big market leaders dominate the market, with a larger group of smaller firms following them. In normal times, they divide the markets among themselves 'peacefully.' Challengers can and do appear from among the smaller

firms or outsiders in such markets, but usually a couple of big firms act as market leaders setting the 'rules of the game.' Consequently, in many markets active price competition is rather an exception than the rule.

One of the main results of this study is that markets do not differ only as far as their degree of centralization or, for instance, the amount of capital demanded to start a new business, are concerned. Just as importantly, they differ depending on the degree to which they produce, or do not produce, homogenous and standardized products that can, or cannot, be substituted for one another. Such factors as technical inventions and their patenting are undoubtedly factors in promoting market differentiation and monopolistic, in contrast to free, competition. In markets that are 'plagued' by quality uncertainty, the structure of the market depends at least as much on the specific market devices at work and the kind of market regimes established as on their market structure. For instance, in practice, fashion markets are often monopolistic, with a couple of firms selling fashionable clothes and acting as fashion leaders, others following their example. The market leadership can shift occasionally from one firm or one group of firms to another, but this does not change the market structure as such. In the authenticity regime of the market of quality wines or fine dining, the system of aesthetic evaluation constitutes the market by making their singular products comparable and commensurate, at the same time leading to market differentiation into luxury and standard markets. These devices of evaluation both preserve and establish, and often even exaggerate, the quality differences, making some products or services practically non-substitutable by elevating them into a quality class of their own, guaranteeing them a leading position, at least for a time. This does not mean that their competitors could not possibly challenge them at all, thus threatening their leading position, but this takes place only occasionally. To succeed in taking over the market leadership presumes that they manage to establish their own taste as the new good or legitimate taste in the cultural field of wines and fine dining. Some markets of singularities enjoy public protection guaranteed by laws and official regulations, such as for instance, the French wine classification of chateaus that the introduction of the wines from the New World to the world markets started challenging half a century ago by introducing its own quality standards. It is a classic example of the close interplay between legal regulation and taste formation in a market. In the case of mega regimes, typical of the film and entertainment industry, it is often difficult to say what comes first, the big economic resources of the leading companies and the dominating share of the markets, kept up to a great extent by forceful efforts of marketing and advertising, or the popularity of their films. Do the films sell because they are popular or are they popular because they sell well? In such megamarkets, the producers' economic capital plays a more direct and important role than cultural capital. Popular opinion regimes, typical of the markets of musical recordings and books, are an interesting case because they, in their turn, seem to follow the logic of the fashion markets but at the same time rely on their rather advanced and developed

market devices, such as top ten or twenty charts, or literary or musical competitions and prizes. The differentiated fashion markets of 'haute couture' come close to authenticity regimes, relying on cultural critics and other intermediaries, whereas popular mass fashion relies more directly on the public opinion.

In many markets of the singularities the market devices have come into being rather spontaneously and gradually with the historical establishment of the markets, whereas others have been consciously created by the involved trade organizations. The new market instruments typical of the rapidly growing financial markets are often of the second type. One would perhaps not expect to find, at the first glance, strong parallels between the markets of art and other cultural goods, on the one hand, and financial assets, on the other hand. The mathematical models of risk management constituting financial markets by pricing risks are a good example of market devices created and established highly consciously and purposefully on the initiative of economic and legal experts. As their adherents argue, they both increase the liquidity and help to minimize the risk of capital invested. At the same time, by simplifying, abstracting, and condensing a multitude of diverse information concerning their assets into a single indicator, they can effectively prevent economic actors from paying attention and pondering the (in principle) endless and to a great extent unknown factors affecting the future value and risk of their investments, which are always unpredictable. Therefore, rather than making the investments more secure they can create a false sense of control, only to collapse totally at the outbreak of the next crisis. One can illustrate the same basic dilemma of quality uncertainty with an example taken from a completely different economic field. A wine lover who follows the advice of the wine guidebooks and wine reviews makes his or her life easier and plays it safely but is at the same time risking missing something even better, never experienced before. Likewise, a movie lover who always goes to see the blockbuster plays it safe by choosing what all the others do, thus easily ending up with a feeling of having missed something really good or more authentic. To take one more example, the ministry of higher learning or a private fund financing mainly research and researchers who can show high impact factors or figures in citation indexes risks neglecting what could be new and innovative in the field of science. To compare, measure, and predict, the aesthetic worth of a film, the taste of good wines, or the 'real' economic value of the derivatives in the financial markets is namely as difficult, if not completely impossible.

The advanced instruments of risk assessment of financial assets are among the most exciting new market devices from the point of economic sociology. By compressing, for instance, the information about the security of several loans of various kinds into one single index, thus making comparing their combined risk and expected profits possible, they in fact create a completely new commodity, or financial asset, out of risk. In many cases, academic economists and mathematicians have been conducive in the development and establishment of these new market regimes. They are often even celebrated as new advanced

scientific innovations. Such instruments constitute new markets very concretely by creating a system of evaluation and pricing that makes the trade with the new commodities possible at all. One can follow the history of the construction of these financial devices and the following constitution of the specific market regimes at a close range (cf. MacKenzie & Millo 2003). An important question is whether the mathematical-statistical models developed that rely on the economic theories in order to be able better to analyze and predict the prices of the financial assets have, in fact, become self-fulfilling prophecies, or, rather, are they performative. This would be the case if the actual behavior of the investors would follow their pricing advice closely enough, making their predictions empirically valid. If this were indeed the case, financial markets would be largely predictable and without any bubbles and crises—which obviously is not true. Therefore, it is reasonable to say that these models are not really performative. They 'only' constitute financial markets.

The privatization of public services, such as education and health care, or infrastructures like highways or tunnels, offer another interesting and contemporary example of the establishment of completely new markets. It looks almost as if in this wave of privatizations, 'in a state of constrained economy states too may end up seeing like a market' (Fourcade &Healy 2017: 24). Privatizing—or 'marketizing'—highways by introducing road tolls is an old and, at the first glance, quite straightforward method: all drivers have to pay a standard sum for the right to use a certain stretch of the road. In addition to creating an organization of collecting the payments, the owner—or leaser—of the road has to make up their mind what exactly the product to be commodified is: selling by mileage, commodifying the distance driven, offers itself certainly as a quite natural measuring stock. However, it shows concretely that in creating a private market for public goods, one has to construct some kind of a market device that makes the pricing of the goods sold, or their commodification, possible. One can claim that this is, in fact, common to all goods: in one way or another, they have to be made comparable and commensurate. In the markets of many ordinary consumer goods, their commodification has taken place gradually and spontaneously in history, and their pricing has become customary and taken for granted. Privatization of infrastructures, such as roads or tunnels, is theoretically relatively simple because their product is rather simple to standardize. Their customers consist of a great number of anonymous and relatively homogenous private individuals, or firms owning trucks and buses. In privatizing, for instance, higher learning or health care services, the situation is different and much more complicated. First, the products are singular to a high degree because of their quality uncertainty and are often difficult to compare and measure. Therefore, the public authorities, or some other agency with enough authority, must first create what often amounts to a quite complicated system of product classification and quality indexes to be used in regulating the market. In this respect, they could well learn a lot from the markets of typical singularities such as many cultural products where market devices,

both more or less spontaneously established or consciously created, have been in use for ages.

Many markets of previous public services are different from the markets, say, of the entertainment industry, in that in many cases the state or public organizations are, de facto, the only buyer in the market. The market is therefore a monopsony, or a buyer's monopoly. This is clearly the case when institutes of higher learning or research receive their financing according to their achievements, measured by such instruments or devices as impact factors or citation indexes established and controlled by the financing state organ, or when the health care authorities of a city or a region buy the services from private providers using some kind of quality scales of their own. If these services' customers and users pay for their services with their own money or with vouchers given to them by the state, the situation is different, but even then the state or the ministry of education or health, has to price the services using some kind of measuring instruments and market devices with which to classify and evaluate them. After all all such markets rely heavily on market devices of one kind or another, whether official and formal or unofficial, less organized and informal. It is by no means self-evident what kind of devices, if any, are best suited for each of the specific tasks.

The wave of privatization hitting many Western European countries, together with the deregulation of financial markets, is one of the more obvious reasons that the social constitution of the markets has become important to study. The aesthetization of consumption and everyday life (Reckwitz 2013), or the increasing importance of the consumers' inner experiences, 'Erlebnisse' (Schulze 1992), to which some Zeitdiagnoses have paid attention, is another, parallel, and arguably as important a trend in modern capitalism. It transforms the overwhelming majority of the consumer goods in practice into singularities and, consequently, the consumers' choices into a question of aesthetic taste. The aesthetization of the world of commodities is actively promoted by the so-called creative industries, which extend far over the 'old fashioned' or traditional cultural industries, as the increasing role of design, advertising, marketing and branding and, more recently, the active use of 'virtual realities' in almost any field of consumption goods proves. It would, however, be too simple to identify them as the sole or primary causes of aesthetization. The more fundamental factor is that the increasing abundance, variation, and diversification of all kinds of consumer goods and services places the buyer and the consumer in a demanding situation: how could one possibly know that one has made the best and the right choice? In principle, four ways of handling the situation are available, one can either act traditionally or habitually and do what one has always done, follow the example of the—significant—others, take the advice of procedural or aesthetic market devices, or make one's own private decision, notwithstanding the potential risk of failure and disappointment. One can also try to cultivate one's taste and become a real connoisseur, but this is both time- and money-consuming, and one can hardly become an expert of taste in more

than one limited field of culture—or a couple at most. (It is highly questionable whether any completely private, autonomous choices, without the ballast of history, habits, and tradition, is possible at all.)

The freedom of consumer choice generally associated with the private markets and the provisioning of goods and services by private firms under free competition is one of the strongest, if not the strongest, legitimating instance of modern capitalism. It is often idealized in political discourse and set on the same footing with such basic political principles like the individual freedom, parliamentary democracy, universal suffrage, or the freedom of the press as a guarantee of the citizens' sovereignty. As the argument goes, private markets and free competition give every customer-citizen a chance to vote, with his own money, for what is available, produced, and sold on the market, according to his or her private preferences, thus effectively steering the direction of production and distribution according to his or her own needs, wishes, and preferences! However, as Tom Malleson (2014) has argued, this is only half the truth, or even less. He presents a long list of convincing arguments, all shedding serious doubt on the claims of customer sovereignty. According to Pareto optimality, the decisive criterion of the fairness of the markets is whether they make someone better off without weakening the position of any other. As Malleson argues (2014: 95), even if markets could prove to be efficient or optimal providers of goods and services, they are by no means just. Following its advice, the richest and well-to-do citizens could well benefit while leaving the fate of the rest intact, even if not making anyone worse off. This is a general moral problem of the fairness of the markets or the market economy in general. Malleson's other, and equally serious, doubts are more straightforward. His most obvious argument is that, since the customers have very different amounts of money at their disposal, the rich have much more 'votes' than the poor. In other words, they decide, in practice, to a greater extent what is in demand and therefore offered on sale. The poor have no other choice than to be satisfied with the assortment of goods the rich prefer. Second, monopolies undermine what Malleson calls the market's democratic potential, or the efficient allocation of resources, because they distort the prices from their true costs and benefits. The neglect of externalities is the third reason that markets fail. Externalities, like pollution, are costs that all people, even people who have nothing to do with their cause, have to bear. Fourth, public goods offer often opportunities to free riders who can use them even if they have not participated in paying their costs. Fifth, 'markets are inadequate on making long-term decisions because market prices are determined by current supply and demand and cannot pay attention to future demands nor guide long-term planning. They can only aggregate the preferences of current consumers and not those of future generations' (Malleson 2014: 98). Sixth, contrary to what is often believed, 'markets can fail to reflect collective choice. While prices reflect the aggregate of private preferences, it is important to realize that such an aggregate may be very different from what people think is best collectively, for

the society as a whole' (Malleson 2014: 98.) To take a current example, while people may privately prefer to eat beef steak and welcome low prices of meat, they might collectively very well think that raising beef cattle is ecologically harmful and it should therefore be restricted or closed down (Malleson 2014: 96–98). These are important critical and principal arguments or dilemmas of the presumed market fairness, all well-known from economic and political literature. To Mallison, they all offer a good enough reason to propose and promote real economic democracy, in the form of cooperatives, workers' ownership, and industrial democracy instead of the 'free choice' and 'democracy of the markets.' Ideally, the cooperative movement could combine both consumers' and producers' interests or, rather, treat one and the same person both as a worker and a consumer (cf. Olsén et al. 1999).

One can pose one more, more principal and critical question to the advocates of a full-blown market economy. If quality uncertainty of commodities is more the general rule than a rare exclusion, restricted only to some economically rather unimportant markets, such as works of art, it becomes highly questionable whether the markets can fulfill their promise of optimizing the utilities at all, or the well-being of the consumers with the economic resources at their disposal, a promise that has been the main legitimating arguments of the private market economy. If the individual preferences are highly unstable—as they most typically are in the fashion and popular opinion markets—and sensitive to the impact of the choices of other consumers (cf. Orléan's imitative principle) and if, in addition, the preferences are not independent of each other, the claim becomes even more problematic. It can, with good reason, be questioned as to whether it makes any sense at all to expect any optimality of the functioning of the markets under normal conditions. The question becomes even more astute if, as argued in this treatise, all markets are socially constituted and not any natural mechanisms or technical instruments. Because the markets differ radically from each other, one should always reflect on their performance and preserve a critical stance to their principles and consequences.

Because markets presume and are first made possible by making, in one way or another, principally qualitatively different objects comparable and commensurate, they tend to make the social relations one-dimensional (cf. Marcuse 1964), or if you like, reify them in the sense that Marx had in mind in his *Critique of Political Economy.* In the case of the market of singularities, broadly speaking, the problem of reification due to commensuration becomes obvious because market devices make qualitatively different objects commensurate, always simplifying their multidimensionality and holistic nature by classifying and compressing them into a single measure or two. For instance, the price difference between the high-quality and the low-quality end of the markets, or between luxury goods and standard goods, can reflect quality differences, but they can equally well distort or overemphasize such differences. To take another example, in other markets of singularities, relatively small differences are made into cutting points between excellence and ordinariness,

thus establishing two completely separate classes of goods or services and their markets.

Marx thought that the reification inherent in the commodity economy can be overcome only by radically transforming the capitalist relations of production, after which human beings would become real masters of their own social relations and history instead of being subsumed under the objectified social forms as they are in the capitalist society. Marx's communism promised to realize the empire of human freedom on a higher level due to the advanced degree of the forces of production, economic efficiency, and the division of labor. This was not nostalgic longing after a return to any simpler mode of production of peasants and artisans or to barter trade and natural economy. In his opinion, the great historic mission of capitalism is the coming into being of a new human being, rich in needs and many-sided in capacities. How this radical transformation, the end of reification and the consequent increase in human freedom, can be accomplished, remains to great extent an open question. To answer this question, one must, in accordance with young Marx, be willing to believe that overcoming the rule of private property ends the alienated state of human beings, realizing their true human nature that they, in fact, share with humanity. The other option is to believe in older Marx's prophecy, which says that once the problem of material scarcity has definitely been solved and the amount of the time needed to produce the necessities of life reduced to a minimum, men and women can spend almost all their time in the 'empire of freedom,' realizing their true inclinations and capabilities. If anything, life in communism would be close to the ideal of aesthetic creativity. The problem with Marx's, admittedly not very concise, characterizations of his future communist society was that it lies beyond the social, that is, without any social institutions that would mediate between the individuals and the society as a whole. It was missing how people would order their social relations in this coming society, both their relations to other human beings and to the world of objects. One could pose the same question in another way by wondering how a common taste, or communities of taste, would become distilled out of the tastes of the multitude of individualities with their abundant needs and capacities. Because Marx was inclined to use metaphors of aesthetic creativity or the artistic genius in painting the coming life in his communism, his ideal figure was a creative artist-producer, a director of orchestra, if you like, and not an ordinary admirer of art or a listener to music, or the consumer of other aesthetic objects and services.

Max Weber's analysis of the Western process of rationalization, the central elements of which are monetary calculation and capital accounting, as well as Georg Simmel's prognosis of the increasing objectification of culture at the cost of the inner, subjective culture, of which the money economy with its objectified exchange relation is the primary example, are both in their own ways critical accounts of the threatening one-dimensionality of the social relations in the modern capitalist society. To them, unlike to Marx, the future had no radical emancipatory alternatives on offer. At the most, modern individuals could

cultivate their own inner richer life in the smaller social circles or intimate spaces preserved intact in the great transformation of the modern culture. At best, they could take advantage of the increasing differentiation of the society that expects only a partial involvement in any one objectified social relation or institution, thus leaving the rest of their personality on their own.

In Max Weber's analyses of the Western process of rationalization inherent in the systematic quest for profit in modern capitalism and its bureaucratic organizations, formal rational action was a necessary prerequisite for the efficiency of economic and administrative activities under the prevailing conditions of mass consumption and mass administration, or the government of the masses. As Weber argued, it was the formal rationality, best exemplified in money and capital accounting, and above all in the double bookkeeping of a capitalist firm, allowing unequivocal comparing the means with the ends, that was characteristic of the economic action and relations in modern capitalism. At the same time, he was careful to note that formal rationality represented only one possible type of rationality, alien to substantive rationality that paid attention to the satisfaction of human needs or to some intrinsic value. At the same time, he could not but regret—just like many other cultural critics of modernity in his times—the loss of the incomparable deeper cultural meanings and values due to these developments. Weber even went so far as to predict that the process of rationalization would, in the end, lead to the complete loss of cultural meanings and personal freedom. His contemporary Georg Simmel was as radical in fearing, following Friedrich Nietzsche, the loss of the spiritual nobility ('Vornehmheit') in the modern society as a consequence of the leveling out of all genuine cultural distinctions. To Simmel in particular, money expressed the ambivalence of modernity in an accentuated form: it both quantified all distinctions—a million dollars is only a million times more than one dollar—but also empowered its owner by liberating her or him from the traditional social obligations and leaving the future open. As the perfect medium, the means of the means, money realized almost any goal, even those unknown and unanticipated at the present.

Instead of dreaming of overcoming reification, or what in fact amounts to the same, of all objective social institutions, economic organizations included, and the following loss of subjective meaning, it is more reasonable to problematize the limits of reification, or commensuration, and the role that economic markets should play in organizing social relations. According to Habermas's *Theory of Communicative Action* (1984), in a modern differentiated society, economic and political relations are part of the systems of the economy and state, or public administration. These systems operate with the generalized media of money and power, respectively, in coordinating social interaction. The rest of the social relations belong to the life world, 'Lebenswelt,' where coordination of social interaction takes place through, in the best case, rational communication and aims, in the final instance, at reaching agreement and, ideally, factual, normative, and aesthetic consensus. In the life world we share and refer to a common

culture, which includes everything from factual beliefs and shared knowledge, normative expectations to the aesthetic standards of authenticity. In addition to paying attention to the centrality of the media money and power in the two social systems, economy and public administration, Habermas was interested in the changing borderlines between the two social systems and the life world of meaningful action. In his opinion, the general tendency of our times is for the two systems to intrude into the life world by applying their specific systemic principles of coordination of action partly replacing their normative and aesthetic self-regulation. What Habermas had in mind was the increasing formal and legal regulation of the family life, family relations, and relations between partners as examples of what he thought to be the colonialization of the life world by the system of formal, public administration. Speaking about 'colonization' does not deny the importance of these measures of social regulation and the following potential increase in the social equality due to them. However, it pays attention to the political and ethical problems that tend to rise with changing the lines demarcating what, at different times and under different circumstances, have fallen under the competence of the formal bureaucratic and legal administration and what has been left to the more informal, often traditional rules and practices of the society. These are problems typically associated with the social policy of welfare state. The welfare state, the public administration, and their expansive tendencies have by no means disappeared from the socio-political agenda; since the publication of Habermas's work, new social problems emerging all the time. However, the 'colonialization' of the life world by the economic subsystem, and the 'economizing' of the public administration through the marketization and privatization of the public services have become arguably an equally, if not even more important, social and political challenge in many Zeitdiagnoses and political prognoses. Privatization and deregulation, at least seemingly, frees the public bodies and political decision makers from the burden and responsibility of making demanding decisions about the distribution and use of the scarce resources only to transform them to another level, creating new challenges regarding how to control the economic performance of the new markets by establishing effective and functional market devices.

The differentiation of the social systems in a modern society is a double-edged sword. The social systems of economy and public administration simplify the coordination of social action by making it one-dimensional in their own way, comparing and measuring all in money or formal and legal categories and in bureaucratic entities, not paying attention to the concrete person or case in question. They make their objects comparable and commensurable by abstracting from their multifaceted reality. The system of economy take account of the reality only insofar as it recognizes its features as relevant according to its own criteria and standards, dismissing other features and traits that cannot be counted in money as irrelevant at best or as disturbing at worst. In this sense, it tends to treat all persons and cases as comparable, not paying attention to the specificity of the individual in question. Without going into a more profound

discussion about the benefits of Habermas's theory, it suffices here to say that it serves as a reminder that the alternatives facing us are not a total reification and objectification of all social relations, or a society without any over-individual, objective social institutions or formal organizations. What can and should be seriously questioned instead are the conditions and limits of the social constitution of such institutions as well as their consequences. The economic markets analyzed in this study offer in this respect a good, currently highly relevant example. If markets are, as claimed here, socially constituted institutions and if they rely, as a rule, on some specific market devices and social formations of taste, they should always be open to critical evaluation. Despite the seeming naturalness of some market regimes and their devices, they are always social constructs and as such not part of any 'second nature' in the sense of being irreversible and beyond critical reflection and political control. In principle, they can always be otherwise, substituted for other kinds of economic institutions and social arrangements that are coordinated by, for instance, collegial bodies of professionals, normative regulations, and ideals established through the processes of democratic deliberation, or habits and traditions. This is true of the most central social institution of modern capitalist economy, money, the deciphering of which poses the fundamental challenge to economic sociology.

Notes

1. Introduction: Making the Incomparable Comparable

[1] Abbott argues in the same line that 'in the context of excess, there is no scarcity, hence there can be no prices, no budget constraints' (Abbott 2014: 12). The other side of the coin is that 'the scarcity is induced precisely because of the staggering excess of possibilities' (Abbot 2014: 14).

[2] In earlier times, in previous historical social formations, it would not make sense to speak about the social embeddedness of economic relations since they had not been differentiated from other social systems. Looking at them from the present perspective, one can, however, retrospectively identify elements and features that we would naturally call economical. If they were exposed to monetary market relations these were, as a rule, rather marginal or subsumed under other social, political and cultural constraints and imperatives. Their analysis demands, therefore, a specific theoretical approach of their own, beyond the scope of this study (cf. e.g., Sahlins's *Stone Age Economics* [1972] or Bloch's [1968] classical studies of feudalism.)

[3] Botanical classification in the spirit of the famous Swedish botanist Carl Linné, who invented the general classification of flowers and plants according to their pistils and stamens was a great progress in natural science in the 18th century, just as double accounting was in business enterprises a couple of hundred years earlier. Even though sharing the same logic of comparison by abstraction Linné's system of botanical classification follows a different scale of measurement than, for instance, bookkeeping with monetary prices. Linné 'measured'—or rather classified and ordered—his plants and flowers

with a nominal scale, which, according to the Oxford Dictionary is 'a discrete classification of data, in which data are neither measured nor ordered, but subjects are merely allocated to distinct categories.' In this scale it makes sense to say that two plants belong to one and the same family of plants but not to say that one of them is more of, say, a daffodil than another, even less that it would be more valuable than the other. Prices of commodities, in their turn, are measured on a ration scale that permits counting quantitative differences of value and, in addition, has a zero point. In this scale, one can therefore claim that something is, say, twice as expensive as something else.

[4] It should be noted, that not even the markets of homogenous and standardized goods would be able to function without many legal rules and institutions, starting from the legal protection of private property and commercial contracts between private individuals to the regulation and guarantee of the value of money by the central bank. These are measures that even the most stubborn anti-etatist advocate of freedom of the markets admits and defends. Thus, all markets are in one way or another legally embedded. As we shall see, the legal guarantees are, however, not the only prerequisites for the proper functioning of a commodity market.

[5] Karpik's concept of singularities, central to his sociology of the markets, differs from the use that Callon and Muniesa make of it. To them, singularization is the process through which objects are identified as belonging to a certain class or group or another, distinctive from others, whereas Karpik emphasizes more the problem of their incomparability as a consequence of which they are difficult to rate.

2. Economic Sociology in a Theory-historical Perspective

[1] The term Sozialökonomie, or socioeconomics, was not Weber's own invention but was used by others—Werner Sombart among them—but it did not have any well-established or standard usage in German (Tribe 2014: 725).

[2] For a detailed account of the various stages and the problems that Weber faced in editing the *Ground Plan* series, see Schluchter 2009: 1–134 and Swedberg 1998: 197–293. Schluchter also dates, as reliably as possible, the different parts of Weber's manuscript and places them in the correct order.

[3] This short description of the themes covered in Weber's *Ground Plan* series gives a good picture of the general idea and content of what he understood under the label of socioeconomics (Sozialökonomik), as he christened his own approach to distinguish it from both older political economy and modern economics. It was an attempt to consolidate economic history and the history of economic thought with economic theory. In this enterprise, sociology played an important role. The authors whom Weber recruited to contribute to his series represented both of these schools of thought. They came mostly from among the younger generation, who had obviously more understanding to the need of consolidating opposite and competing

positions, which for quite long time had waged a vehement struggle, known as the 'Methodenstreit,' over the hegemony of interpreting the society, history and culture in the German academia.

[4] Weber (1975; cf. Zafirovski 2001) criticized the attempt to base its claims on any psycho-physiological foundations of human being.

[5] In *Economy and Society,* in his sociological Kategorienlehre, or system of concepts, Weber introduced four ideal or pure types of individual action: value rational, goal rational, traditional, and affectual or emotional. As a matter of fact, only the goal rational type designated rationality in any ordinary sense of the word. It is oriented to the rational choice of means to reach a goal, whatever this goal happens to be (Weber 1968a:24). Goal rationality is often interpreted as instrumental or technical rationality. A value rational actor is 'determined by a conscious belief for its own sake of some ethical, aesthetic, religious or other form of behavior, independently of its prospects of success' (Weber 1968a:24). It could hardly be claimed to be rational in any usual sense of the word. The two last types of action are explicitly irrational, contrary to instrumental rationality. Traditional action is simply motivated by the fact that 'we have always acted like this,' whereas affectual actions are emotionally motivated.

[6] The problem that faced the 'subjectivist' economists was that firms do not know or have any utilities, as Veblen (1998 [1908]: 164) pointed out in his critical comment on the American Marginalist, Irving Fischer. Only human beings did. The second-generation Marginalists, Friedrich von Wieser, Eugen Böhm-Bawerk (from Austria), John Bates Clarke in the USA, Kurt Wicksell in Sweden, and Philip H. Wicksteed in the UK, solved it by distinguishing mediate from immediate marginal utilities. According to the marginal productivity of the firm, the price and volume of its product input depends on its marginal product. The optimal production decision of a firm depends on marginal quantities: a firm maximizing its profits produces until the additional cost of an extra unit of its product is equal to its contribution to the total income of the firm. This idea or generalization of the principle of marginal utilities to the costs of production was generally adopted first in the 1930s. Taken together, these ideas offered the economists a theory of the optimal use of resources with which one can optimize the satisfaction of one's preferences in terms of utilities, condensed in the concept of the general equilibrium. (See Mäki & Sappinen 2011: 294.) In Veblen's opinion, this did not, however, save the theory from the critique of its hedonistic postulate on which it relied in the end and which it tried to 'take account of in terms of extension.'

[7] As Norkus (2010: 48) pointed out, Weber comes to this insight first in his late writings: 'In his late work Weber identified (national) economics ("Nationalökonomie") increasingly with the institutional abstract theory of economy which is both in need and makes possible sociology as an complementary or alternative science.' The analyses of such social institutions, including authority, religion, and law, which Weber had earlier understood

to be part of the field of economic sociology are now special subfields of sociology on their own, alongside the very economic sociology.

[8] Weber's (1990) outline of his lectures on general or 'theoretical' economics from 1898, almost twenty years before he developed his own system of sociological concepts of economic action, quite closely follows the teachings of the Austrian Marginalists. In presenting its theoretical status, he explicitly pointed out the 'constructed nature' of its economic subject who is, in contrast to empirical human beings, completely informed, selects the best means to reach its goals, and dedicates all its energy to economic activity. On the other hand, Weber relativized it by referring to the fact that 'the abstract theory takes at its starting point the modern occidental type of a human being and its economizing'(Weber 1990: 29).

[9] For instance, to Jevons, one of the founding fathers of Marginalism, economics was the science of 'calculative hedonism.' The new science of economics presumed that one could quantify individual preferences. On the other hand, he did not think it possible to compare the preferences of different individuals with one another (Gagnier 2000:49–50).

[10] One could see Simmel's conception of value as a rather freely interpreted version of the Marginalists' idea of the determination of value as a combination of utility and scarcity, both having their impact on the marginal utility, which Simmel however formulated in more abstract terms without any reference to the concept of the marginal utility.

[11] As Zuckerman (2010: 369–370) argues, investors in real estate markets are generally more prone to be 'bullish' than 'bearish', that is, they buy when they expect prices to go up but are not as ready to sell when their expectations are the opposite. Furthermore, this is not due to any psychological factors but rather is inbuilt in the very structure of the markets. As he concludes, 'it should thus not be surprising that real estate markets are notoriously prone to bubbles' (Zuckerman 2010: 370).

[12] As Fourcade et al. (2015) have shown, even today economics is, of all the social sciences, the most self-contained and less inclined to take notice of the results and contributions of other disciplines.

3. What is Money?

[1] Cf., 'What appears to happen is, not, that gold becomes money, in consequence of all other commodities expressing their value in it, but, on the contrary, that all other commodities universally express their values in gold, because it is money. The intermediate steps of the process vanish in the result and leave no trace behind. Commodities find their own value already completely represented, without any initiative on their part, in another commodity existing in company with them' (Marx 1973a: 92).

[2] See, for instance, Mankiw's and Taylor's (2011:617–618) textbook on economics.

[3] Cf. Geoffrey Ingham's exposition in *The Nature of Money* (2004), which refers to Merger's 'rational choice' explanation of money as the standard one.

[4] It was this theory that Max Weber referred to approvingly in his *Economy and Society* (Weber 1968a: 78; cf. also A.M. Mitchell-Innes's articles published shortly after Knapp's treatise on money in 1905: *What is Money* [1913] and *The Credit Theory of Money* [1914].)

[5] The money and prices in international transactions is a challenge to the state theory of money. In international economy, it was therefore even more natural to be a 'metallist.' According to Wray (2014: 8), the development of the gold standard was a solution to the problem of what could be used as international—stateless—money.

[6] It is understandable that the majority of the theoreticians of money take its function as a means of exchange as their starting point. One could hardly regard any unit of measurement as money. This is, however, not the central element of the state theory of money. In addition to money being a means of accounting, the state must authorize it. It presumes the existence of a 'community of money.' (Paul 2012: 161). Cryptocurrencies, arguably the best known among them being Bitcoin, do not have any state bank backing them. The creation of many of them has, in fact, been motivated by a strong anti-etatist ideology. But in the end, they do have an 'official' exchange rate with strong state currencies, dollars and euros guaranteeing their validity as money.

[7] The state theory of money, or Chartalism, resembles the theoretical understanding of the uses of money and price common in the socialist economy. In practice, socialist economic systems, in the Soviet Union and East Europe, were hardly ever pure centrally planned economies but always included bigger or smaller elements of market economies. The role of money in a socialist economy was, at times, vehemently disputed. Prices were in general based on the cost of production, and money was mainly used as a means of accounting (see Nove 1980: 175 and 186). The market relations of supply and demand played only a minor role.

[8] Esposito (2010: 99) draws from this the further conclusion that any 'real' market economy is a capitalist one: 'One can speak about a market in the real meaning when money does not any more serve the concrete achievement of goods but serves the profit instead.'

[9] According to Eugen von Böhm-Bawerk's classical critique (1898(1896), Marx's theory of the prices of production in the third volume of *Capital* contradicts the law of value in the first volume. For a recent reappraisal of the debate, see Moseley (2015).

[10] There is another serious simplifying assumption in Marx's theory of value, or the doubling of the commodity into use value and value as well as labor into concrete and abstract labor. Following the standard conception of the classical political economy, Marx conceives the use values of commodities as their capacity to satisfy human needs, as given and unproblematic, well-known to their buyers and consumers. As Baudrillard (1981) pointed out, from his semiotic perspective it is highly questionable to think of commodities,

with their multiple meanings, as satisfying some 'real' needs. This becomes even more accentuated in the modern world where designing, marketing, advertising, and branding are essential ingredients in almost any marketable commodity from potatoes to wines, from shoes to cars, and from trousers to computers. A logical conclusion is that there is no such thing as a standard market in which use values or utilities are fixed and known to all the actors (cf. Jagd 2007: 84; Falk 1994), or, if it exists at all, it is a rare exception.

4. Sociological Theories of the Market

[1] In their interesting empirical study of the price behavior of, admittedly, a relatively small number of American firms, Hall and Hitch (1939) came to the conclusion that 'entrepreneurs thought that a price based on full average cost (including a conventional allowance for profit) was the "right" price.' The result resonates with Fligstein's reasoning. The study was inspired by Chamberlin's (1933) work on monopolistic competition. As the authors conclude, competition between firms did have an effect on the formation of prices but not as usually predicted: 'One common procedure was the setting of a price by a strong firm at its own full cost level, and the acceptance of this price by other firms in the "group"; another was the reaching of a price by what was in effect an agreement, though an unconscious one.' (Hall & Hitch 1939: 19).

[2] For the important role of galleries and the gallerists, see also Yogev (2010).

[3] See also Baumol (1986: 10): 'The art market contrasts sharply with those for manufactured products, such as steel bolts or ball bearings in terms of determinacy of equilibrium price level. There the key to equilibrium is responsiveness to supply.' As Baumol (1986: 14) concludes, there is 'no way of predicting in art markets, just like stock markets' (cf. Stein 1977).

[4] See, however, Grampp (1989) who claims that aesthetic value, like every other form of value, is just a specific form of economic value and in principle reducible to it.

[5] As Zuckerman (1999: 1402) has interestingly pointed out, the constitution of a market depends in fact on two related processes. First, the object must be recognized as 'legitimate,' that is, classified as belonging to one and the same market. This creates the structure of the market. Second, their value must be valued and the object ordered in relation to the value of the other products in the same market.

[6] Thévenot (2015) offers another interesting, and slightly different, perspective on the social construction of value through product certifying in the electric power infrastructures.

[7] Karpik (1999) analyzed the French market of legal services and lawyers in his earlier comprehensive historical studies.

[8] According to Fourcade (2012: 530), the early French system of wine classification, originally constructed in the mid-19th century, followed quite closely the prevalent market prices, which were understood to be the most

reliable source of information about the quality of the wines (in Cóte d'Or with historical statistics going as far back in history as the year 1635).

5. The Three Social Formations of Taste in Economic Markets

[1] The Soviet Union and other socialist countries of Europe acknowledged, or had to acknowledge, fashion as an important social phenomenon, even though it did not really fit into their system of centrally planned economy (see Gronow and Zhuravlev 2015).

[2] There is, of course, no market of first names, but in some countries rankings of the most popular boys' and girls' names of the year are published regularly. One could guess that such lists mostly help parents to avoid the top ten or twenty names and choose something they view as more original, only to discover the next year that many other parents have thought exactly the same. If this were the case, these rankings are effective devices in promoting common taste as anti-fashion.

[3] I'm grateful to Arto Noro for not only pointing out the exemplary nature of sports fishing as a social world but also for offering me a learned insight into its cultural manifoldness and richness.

6. The Aesthetization of Everyday Consumption

[1] Schulze draws the picture of the modern society as a mass society with gloomy colours in his later writings (1998 and 2003) in which he argues that the desires of the modern consumer tend to be manipulated and to become unauthentic.

[2] The American film industry of the 1930s, controlled by the 'five major and three minor companies,' offers a good example of the marketing strategies used to direct the movie-going tastes of the masses in a relatively centralized mass market. These included, in addition to the various attempts and methods to control and own the main distribution channels, "'block booking" whereby those exhibitors who wanted to exhibit movies featuring some of the big movie stars had to rent a set of other movies too; distributing only a limited number of printed copies allowing only a tiny fraction of the theaters to rent the movie relegating independently owned theaters to the lowest priority; a relatively small number of theaters had a right to the "first runs" and charged higher ticket prices. The market was differentiated into A and B movies. (Surdan 2015: 229–232).

[3] Cf. Schumpeter's (1939) well-known distinction between scientific and technical discoveries and social innovations. In order to become commercially successful, the first ones must find or create social practices into which they fit and make themselves thus needed.

7. Finance Capital and the New Financial Markets

[1] For an interesting comparative study of the spread of neoliberal economic thinking and policy favoring financialization in four countries, see Fourcade-Gourinchas and Babb (2002).

[2] Esposito (2010:155) formulated this even more pointedly, 'one buys and sells a promise, and the whole trade of derivatives concentrates around this promise. In fact, the majority of deals with derivatives are completed without the exchange of anything at all, except the mutual observation of the observers and their expectations.'

[3] Speculation was one of the main reasons for the nomination of a state committee in Germany to inspect and make recommendations about the rules and regulations of better trading practices in the German Stock Exchange in the middle of the 1890s. Max Weber was an economic expert in this committee. He even published a booklet, 'The Stock Exchange' (Die Börse 1999 [1895]), targeted to a common readership. In it Weber defended modern stock exchange, which he regarded as an essential part of modern capitalism, against accusations of its speculative nature. Weber thought that harmful speculation was more typical among small-scale, amateur investors, and as a remedy, he relied on the normative self-regulation of the professional, bigger investors and traders.

[4] As Rona-Tas and Hiss (2010: 116) pointed out, expert judgment is more important in corporate than in consumer credit rating whereas formalized, 'actuarial' calculation dominates consumer credit rating.

[5] In *What Money Can't Buy,* Sandel's (2012) presents an impressive list of newly emerged markets in the USA, trading all from hiring people to stand in line to get access to papal masses to procreation rights, death bonds and college admissions, and questions their ethical foundations, with good reason.

[6] According to Robert K. Merton (1968 [1957]: 421), who pointed out the importance of self-fulfilling prophecies in social science, 'the self-fulfilling prophecy is, in the beginning a false definition of the situation evoking a new behaving which makes the originally false definition come true.' The new conceptualizations of financial markets, which were conducive in creating these new economic institutions, differ from Merton's definition of the self-fulfilling prophecy. They are not false in the beginning but completely new definitions of the situation (Burns & DeVille 2003). It is an interesting coincidence that Robert Merton's son, Robert C. Merton, a Nobel prize winner in Economics, is one of the developers of the Black-Scholes model, also referred to as Black-Scholes-Merton model.

[7] The French strawberry market at Fontaines-en-Sologne, established in 1981, uses up-to-date technology. More than anything else, it is 'a concrete realization of the pure model of perfect competition' as presented in economic theory (Garcia-Parpet 2007: 20).

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Jukka Gronow's book *Deciphering Markets and Money* solves the problem of the specific social conditions of an economic order based on money and the equal exchange of commodities. Gronow scrutinizes the relation of sociology to neoclassical economics and reflects on how sociology can contribute to the analyses of the major economic institutions. The question of the comparability and commensuration of economic objects runs through the chapters of the book.

The author shows that due to the multidimensionality and principal quality uncertainty of products, markets would collapse without market devices that are either procedural, consisting of technical standards and measuring instruments, or aesthetic, relying on the judgements of taste, or both. In his book, Gronow demonstrates that in this respect, financial markets share the same problem as the markets of wines, movies, or PCs and mobile phones, and hence offer a highly actual case to study their social constitution in the process of coming into being.

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