Value, conventions and finance

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Abstract: Scholars of economics and sociology of conventions (in short EC/SC or convention theory) have taken an increasing interest in the question of how things are valued in monetary terms. How do social actors decide on the values of commodities and assets? How do their valuations affect the prices that they exchange at? And how does that impact on societies more widely? This chapter provides an overview of conventions-oriented work on monetary valuation in general but also focuses more specifically on the valuation of financial assets. Here the issues are if anything even more momentous. Financial assets, unlike most commodities, do not even *exist* as such unless and until they are valued. How financial valuation is achieved is thus fundamental to the financial sector. The chapter discusses work on the role of financial value entrepreneurs and the power they deploy, both in support of conventions and in order to build audiences prepared to accept their application to specific types of asset.

Keywords: Asset circles, Convention theory, Financial value, Valuation conventions, Value entrepreneurs

1 Introduction

In his 1936 discussion of how investors value stocks or shares, John Maynard Keynes wrote that "In practice we have tacitly agreed, as a rule, to fall back on what is, in truth, a convention. The essence of this convention […] lies in assuming that the existing state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change" (Keynes 1936: 152). Keynes's statement, along with David Lewis's book *Conventions*, is one of two key inspirations for the economics and sociology of conventions (in short EC/SC) (Lewis 1969) [cross reference: Conventions: Meanings and Applications of a Core Concept in Economics and Sociology of Conventions]. The very roots of the tradition are thus entangled with the study of financial value. Although early work in EC/SC focused on other topics, such as labor markets and the production and effects of economic classifications [cross reference: The Genesis of Economics and Sociology of Conventions at the Turn of the 1970s and 1980s], the concept of conventions has also become influential in the growing fields of valuation studies and social studies of finance. This chapter discusses conventions-based explanations of the value ascribed to commodities and financial assets, and the processes in which they are valued. EC/SC's approach to value places it firmly in opposition to mainstream neoclassical approaches to economics. By placing normative conventions at the heart of its account, it acknowledges social influences on the economy that neoclassical approaches largely exclude, thus rejecting both the mainstream understanding of economic agents as asocial optimizing individuals and its understanding of the systemic context as provided exclusively by sets of prices in markets.

Convention theory appears in the study of value in a variety of guises. The clearest cases are found in work that is firmly aligned with EC/SC, such as the work of Luc Boltanski and Arnaud Esquerre (2020) on the value of commodities or that of Andre Orléan (2014) on the value of financial assets. But in some ways a more significant indicator of the influence of EC/SC is the work of scholars whose primary intellectual allegiances lie partly elsewhere yet who draw explicitly on convention theory as an explanatory resource, such as the work of Jens Beckert and of Dave Elder-Vass (Beckert 2016; Elder-Vass 2022). A third level of possible influence operates through the work of scholars who employ largely equivalent explanatory structures without highlighting or even recognizing their relationship to the tradition of convention theory. On the one hand, this can be a consequence of convergence between explanatory forms employed in different traditions, rather than an influence of convention theory as such. On the other hand, however, this may be the product of a

naturalization of concepts from EC/SC into these fields, which would be the profoundest form of influence. It is only to be expected that elements of EC/SC will increasingly be drawn into syntheses with other traditions as a consequence of this growing influence. Hence, all valuation scholars will benefit from understanding the conventions tradition, its implications, and how it has been applied to questions of financial value. Equally, convention theorists will benefit from considering the consequences of their growing influence for their relations with other traditions of thought.

2 Valuation conventions

The core concept of EC/SC, the convention, is used somewhat diversely by different scholars. Readers will find different versions of the concept, varying across a number of dimensions [cross reference: Conventions: Meanings and Applications of a Core Concept in Economics and Sociology of Conventions]. One significant dimension of variability is in the breadth and complexity ascribed to a convention. At one extreme, Luc Boltanski and Laurent Thévenot in their canonical book *On Justification* (Boltanski and Thévenot 2006) employ the concept of *orders of worth*, a rather expansive version of the concept of *convention*: an order of worth is a broad principle used to assess the justice of claims, proposals, decisions, and the like, buttressed with a whole infrastructure of more detailed guidelines and practices. By contrast, monetary valuation conventions are generally understood much more narrowly than this: as single standards for the assessment of monetary worth. One example, dominant during the Internet stock price bubble at the beginning of the twenty first century, was the idea that the stocks of Internet companies should be valued on the basis of how many views or users the company's website was able to attract (sometimes known as "eyeballs"), or how many advertising impressions, regardless of how much revenue or profit the company made from their visits (Orléan 2014: 228). As this example suggests, the concept of a convention is used in a rather more granular fashion in the context of valuation than in the case of orders of worth: it typically refers to a specific guideline for the assessment of value.

Another dimension of variability is organized around the question of how widely accepted a principle should be for it to count as a convention. For Orléan, a model of valuation becomes a valuation convention when "[…] one interpretation of events ends up receiving the general support of the market [… , creating] a model of valuation that everyone recognizes as legitimate" (Orléan 2014: 228). Although Orléan draws strongly on Keynes in

many respects, this version of the concept also has strong echoes of the other major root of EC/SC: the work of the philosopher David Lewis. For Lewis (1969), a convention is a principle or procedure for resolving coordination problems that is inherently arbitrary but that works only if, and because, everyone accepts it. One popular example is the rule that everyone must drive on the right-hand side of the road, which could equally well be the rule that everyone must drive on the left-hand side of the road – as long as everyone sticks to the same rule. Lewis's concept of a convention, then, depends on unanimous adoption within the relevant community, and Orléan seems to require the same for a model of valuation to become a convention. Something similar is implicit in Boltanski and Thévenot's orders of worth: while there are a number of different orders of worth, all of them are seen as more or less universally accepted, and disputes over justification are oriented to the question of *which* of them applies to any given case.

For Elder-Vass, by contrast, unanimity is not required for a principle to be regarded as a convention (Elder-Vass 2022: 49–56). This approach is more in line with a second strand of EC/SC, which sees conventions as "[…] socially shared interpretative schemata" rather than as necessarily unanimous coordination mechanisms (Beckert 2011: 777) (see also Lazega and Favereau 2002: 25). Valuation conventions, which Elder-Vass also calls *lay theories of value*, are norms about how to value commodities and assets. The Internet stock valuation convention discussed by Orléan would count as an example, but so would many other more mundane norms. For example, the widely accepted view that an item is worth less if it is damaged, or the belief that an item that is taken to confer prestige on its owner should be valued more highly. Beliefs such as these need not be *universally* accepted to affect the process of valuation, but it is difficult to deploy them to influence prices unless they have some normative purchase, which depends on them being accepted by a larger group. Elder-Vass connects the argument up to a wider theory of normativity, which he sees as being produced by norm circles: groups that are responsible for the causal influence of norms on social practices as a result of endorsing and enforcing individual norms (Elder-Vass 2022: 93–9). For a theory of value to have normative power it must be backed by a group of people (a norm circle) who are prepared to endorse its employment in assessments of value.

Whatever the merits of Elder-Vass's account of normativity, it is generally accepted that conventions are norms (although not all norms are necessarily conventions) (Al-Amoudi and Latsis 2014; Favereau 2008). Any normatively endorsed theory of value may influence assessments of value by both potential buyers and potential sellers, regardless of whether it is unanimously accepted in a social context or not, although more widely accepted theories will

tend to be more effective than less widely accepted ones. This perspective thus allows for a greater diversity of valuation conventions and thus leaves more scope for variation in (and disputes over) *which* conventions are employed in any given case. It also allows for *many* different conventions to influence any given case. Rather than the value of an item being determined by one single convention, in other words, it may be influenced by many conventions. The value of a prestige item that is damaged, for example, will be influenced by both of the conventions mentioned earlier in this paragraph, and there is considerable scope for debate over how those conventions should be balanced in any given case. Indeed, the idea that "[…] several valuation conventions may exist to value products traded on the same market" (Chiapello 2015: 14) can be traced back in EC/SC at least to 2006.

This provides an account of how potential transactors assess the prices they might be willing to pay in exchange transactions that is strikingly different from mainstream neoclassical theory. The neoclassical theory sees the price that a potential buyer is willing to pay as being determined by an individualistic consumption function – a curve that relates how much of a commodity they are willing to buy to various different prices, based on the "utility" that the good would provide to them if they were to buy it. On the buyer's side, then, the neoclassical model sees valuation as based on highly individualized preferences about the utility of different potential purchases. By contrast, the conventions approach sees buyer valuations as strongly influenced by the socially formed conventions that influence their views on what a reasonable price would be to pay for a given item. Values, in other words, are at least partly socially constructed and not simply subjective understandings of the utility of items [cross reference: Conventions: Meanings and Applications of a Core Concept in Economics and Sociology of Conventions]. One implication, to be addressed below, is that potential buyers can be influenced, even manipulated, to be willing to pay *more* for the same item by influencing the valuation conventions in play.

On the seller's side, by contrast, the neoclassical theory sees typical producers as unable to influence prices. They can only choose how much to supply at the prevailing market price, and they do so on the basis of a production function that determines how profitable their alternative decisions would be. Granted, monopolistic suppliers are allowed to influence price, but again their sole algorithm is taken to be setting the price/quantity combination that maximizes profit given their production function. By contrast, the conventions approach (like some post-Keynesian models of price setting) recognizes that sellers typically have much more freedom in price setting than the neoclassical model allows, even when they are not monopolistic suppliers (Downward and Lee 2001). This provides opportunities, in particular,

for them to raise prices in response to the conventions that buyers are committed to, or to persuade buyers to pay higher prices by manipulating those conventions and commitments through marketing work.

3 Valuation and prices

The EC/SC approach to valuation, then, provides a critique of the neoclassical account of demand and supply, with its individualistic, asocial understanding of economic agents as calculating preference machines. Instead, EC/SC offers a more sociologically informed sense of valuation as embedded in and shaped by a normative context that influences how agents understand the worth of things, and thus how they value them in monetary terms. In doing so, however, it also offers at least part of an alternative economic theory of price.

This is apparent, for example, in Thomas Franssen and Olav Velthuis's (2016) work on the pricing of Dutch fiction books. They argue that consumers "[…] judge the fairness of prices against different social standards or orders of worth" and that consumers must see prices as legitimate in terms of these standards "[…] for markets to stabilize" (Franssen and Velthuis 2016: 367). (Their use of the term *orders of worth* does not indicate that they are employing an expansive version of the concept of convention but rather that they have imbibed the tradition from the work of Boltanski and Thévenot, like many of the more sociological conventions thinkers.) Ironically, it is not the standard of the writing that affects the price that consumers expect to pay for fiction, but rather the material properties of the books themselves, such as their size, the type of cover, and the quality of the paper (Franssen and Velthuis 2016: 377). Books that are overpriced by these standards will sell poorly, and thus the conventional expectations of book buyers play a significant role in determining the prices that publishers are able to charge.

At times convention theorists appear to argue as if prices are fully determined by conventions, or at least as if it is only the influence of conventions that is worth considering. A full account, however, must see prices as shaped by a complex interaction of conventions and other forces. Emmanuel Lazega and Olivier Favereau argue for employing both the concepts of conventions and structures to make sense of the economy (Lazega and Favereau 2002). Beckert, for example, sees prices as the outcome of struggles between actors in market fields, where conventions, as an element of the actors' cultural frames, interact with institutional regulation, networks of established relationships and the varying power of actors

with differing interests (Beckert 2011). The implication is that EC/SC as such needs to be combined with other perspectives (as Beckert does) to develop a full explanation of price determination. An account of the conventions mechanism, to put it differently, must be combined with accounts of other kinds of mechanism and how they interact to provide a full explanation.

Elder-Vass adopts a similar perspective, placing price determination in a critical realist explanatory framework and seeing the price paid in each transaction as a unique event in an open system, where many different factors may affect the outcome (Elder-Vass 2022: 46–49). Multiple conventions may influence the prices that both buyers and sellers are willing to exchange at, but at the same time many of the factors that are theorized in the mainstream may also be relevant, such as cost considerations for sellers and the availability of substitute products that provide alternatives for buyers. The power of monopolists to resist price reductions may also be significant in some cases, as may work that is done by businesses and the media to influence the preferences of potential buyers (see below). Conventions alone do not fully *determine* prices, yet they remain an essential element of a theory of price: no exchange can be made unless the parties are willing to accept the price, and conventions are central to understanding what prices will be acceptable.

The idea that the price paid in each transaction is a unique event also takes us away from the neoclassical theory of price in another respect: the task of a theory of price is no longer to explain *equilibrium* prices that apply (in theory) across a whole market, but rather to explain the specific prices that are actually paid in each individual transaction (Elder-Vass and Morgan 2023). While there are markets where it is normal for the same price to apply very widely for the same item, such as book markets where discounting is not allowed (once the case in the UK and still in Germany, for example), and some financial markets, the more usual case is for prices to vary between transactions. Different suppliers may charge different prices for the same commodity, for example, different customers may negotiate different deals, and the same supplier may charge different prices to different customers. Conventions, in contexts like these, are deployed actively in unique individual negotiations about prices.

Conventions, however, also help to explain some of the pricing commonalities that do occur, without that implying any acceptance of the neoclassical doctrine of market equilibrium pricing. One approach is to see prices themselves as not just the products of convention but as exerting some sort of conventional influence of their own. In particular, Orléan has argued that “A price […] has normative authority” by which he means that once a price has been established in a financial market, it comes to be accepted as representing a fair

judgement of value (Orléan 2014: 225). Financial analysts, he suggests, are more likely "to make their analysis conform to the verdicts of the markets" (Orléan 2014: 225). Prices, here, exert a stabilizing effect but they do so by endowing certain pricing levels with authority, not by mechanically equilibrating pre-existing demand and supply curves.

Beyond financial markets, one could ascribe a somewhat similar form of influence to ticket prices. In most shops goods carry tickets stating their "price" although here the term means something different: not the price at which an exchange has occurred, but the price at which the item is offered for sale. There is a powerful convention that the price offered on the ticket is the price that should be paid in a sale transaction, and this operates in conjunction with the tickets themselves as a means for the retailer to assert a value claim, but there is no necessity that this is the price that will actually be paid for the item (Elder-Vass 2022: 56). A buyer may negotiate a reduction, for example, or the retailer may fail to sell at this price and mark the price down until they are able to sell it. In the more typical case where the price paid is the ticket price, however, the convention serves to homogenize prices across multiple transactions regardless of whether supply and demand have been balanced out in the neoclassical fashion. Conventions, in other words, can influence realized prices in a variety of ways, without explaining them entirely.

4 Value entrepreneurs

But if conventions influence prices, what influences conventions? On the one hand, they tend, like other norms, to be stabilized by being drawn on, endorsed and enacted in social practices, in this case in the practice of valuation. But on the other hand, they are also acted on deliberately by powerful social actors with vested interests, who sometimes seek to change the ways they are understood and applied. The field of valuation studies has sometimes been too influenced by process-oriented sociological perspectives that ignore the power of social actors to affect social outcomes, but authors connected to the conventions tradition have insisted on the significance of what Patrik Aspers and Beckert call "[…] power-laden political struggles leading to the use of specific judgment devices". There is, they argue, "[…] a *politics of classification* led by rent-seeking actors" (Aspers and Beckert 2010: 23). Others have used different labels to refer to similar phenomena. Rainer Diaz-Bone has written of a "politics of quantification": "[…] the politics of choosing and thereby controlling the introduction and application of conventions and standards in markets and economic

organizations” (Diaz-Bone 2017: 248). Narrowing the focus to valuation, and in particular to *the politics of valuation*, Francois Eymard-Duvernay offers the concept of *valuation power* (Eymard-Duvernay 2011). More generally, all of these approaches can be taken as examples of the need to combine convention theory with an appreciation of structural power

What all of these authors have in mind is that market actors, notably firms that sell goods, are able to influence the conventions used by other market actors, notably potential buyers of their products, through marketing, advertising, media discourses and even government policies related to their products (Aspers and Beckert 2010: 15; Beckert 2016: 14). Elder-Vass (2022: 76–77) has coined the term *value entrepreneurs* to refer to these actors, by analogy with Pierre Bourdieu’s account of how cultural entrepreneurs build a reputation that enables them to consecrate particular works of art as having aesthetic value (Bourdieu 1993: 37). Value entrepreneurs, in this account, operate by persuading potential customers “[…] to adopt favourable valuation conventions and apply them to their products” (Elder-Vass 2022: 3). The term is not confined to those advancing their own products, but can also apply more widely to, for example, journalists, agencies producing ratings and marks of excellence, and financial analysts (Elder-Vass 2022: 77). Because, however, it does include those advancing their own products, it further undermines the neoclassical idea that “demand curves” merely reflect individualized preferences independent of social forces and producers, since producers can exercise a social influence on the beliefs that potential customers hold about their products.

These effects are particularly clear in markets for luxury goods. It has been recognized since at least the work of Thorstein Veblen (1899), over a hundred years ago, that many luxury goods are purchased as much for their display value as for any inherent utility they may possess. For Veblen, that display value arose because the goods were known to be expensive, and thus performed the function of conspicuously displaying the owner’s wealth. A whole industry has developed that is devoted to publicizing expensive goods able to perform this function; a function that depends not just on the item being expensive but also on it being *known* to be expensive. The valuation convention at work here is that a product is worth more if it can be used to display the owner’s wealth, and here the work of value entrepreneurs is focused on classification, on having their products classified and recognized as markers of wealth.

Wealth, however, is not the only kind of status that consumers may wish (or be able) to display. The less wealthy can also achieve status by being recognized as possessors of what Bourdieu (1984) called *cultural capital*. This requires not the exhibition of wealth but the

exhibition of "good taste". Good taste, however, is highly culturally specific, and highly conventional: it depends on the conventions governing what is considered tasteful in any given community. Value entrepreneurs have invested huge amounts in marketing campaigns designed to construct and embellish buyers' understandings of taste and to associate their own products with them. Boltanski and Esquerre argue that luxury goods appeal to buyers because they have "[…] a kind of aura surrounding them, signifying that they are exceptional, the property of the elite" (Boltanski and Esquerre 2016: 33). While there are many ways in which such an aura can be constructed, Boltanski and Esquerre focus on the increasing fabrication of histories that *enrich* products – increase their values – by connecting them with the notion of *heritage* (Boltanski and Esquerre 2016: 34). One family of such histories is concerned with the idea of *craft* production, as opposed to the popular image of large-scale industrial production. A variety of alcoholic drinks have been successfully marketed as "craft" products and connected up with these notions of heritage in ways that have enabled their producers to charge higher prices (Thurnell-Read 2019). This enrichment of commodities rests both on the promotion of the convention that craft or heritage products should be valued more highly, and discursive work designed to associate particular products with craft or heritage.

One of the best documented examples of this phenomenon is the repositioning of the spirit grappa in Italy (Delmestri and Greenwood 2016). Grappa was long seen as a low-status product in Italy, " […] a coarse spirit consumed by […] peasants and alpine soldiers" and produced by primitive old-fashioned producers (Delmestri and Greenwood 2016: 508). During the late 1960s and the 1970s, however, a small group of grappa producers, and in particular Giannola Nonino, with the support of a number of food critics who advocated artisanal production, introduced new grappa products and campaigned to have them recognized as premium spirits of the same quality and social standing as elite brandies. Giuseppe Delmestri and Royston Greenwood show how, using strategies such as visiting sommeliers in elite restaurants and persuading them to stock the product, and giving away samples to prominent citizens, Nonino succeeded in having certain classes of grappa recategorized as a premium product. By the early twenty first century most of the small-scale artisanal producers had succeeded in having their products recategorized (although mass produced grappa from modern factories continued to be seen as a low-quality product). In the terms of convention theory, Nonino and some of her collaborators were value entrepreneurs who succeeded in stretching the convention that premium spirits should be valued highly and making use of the emerging conventions that craft and heritage products should be valued

highly by having many types of grappa recognized as craft-produced premium spirits to which these conventions applied. Delmestri and Greenwood, however, do not themselves invoke convention theory or cite convention theorists in their paper, making their work an example of the third kind of possible influence of convention theory noted earlier. Either other traditions of work on value have independently come to convergent understandings of valuation processes, or the influence of EC/SC has seeped into the literature to the point where its ideas reappear unacknowledged under other guises.

5 Financial valuation conventions

Financial assets are generally valued on a different basis than ordinary commodities. For almost all buyers and sellers, the purpose of a financial asset is to provide access to a revenue stream, and their valuations of the asset are therefore based on the size and timing of the revenue stream they expect it to provide. Many assets carry an entitlement to a regular income, such as the coupons paid on government bonds and the dividends paid to shareholders, but there is usually also a second element of the expected revenue stream: the price the holder expects to receive when they sell the asset (or redeem it at maturity, for some kinds of asset). Both kinds of payment, however, lie in the future, and so at any given time before they are paid they are inherently uncertain. Some are more uncertain than others: government bonds, for example, often carry fixed income streams, and although some governments have defaulted on their bonds, certain governments are considered entirely reliable borrowers. The monetary income streams on their bonds are generally considered to be close to certain – although even here, variable inflation rates can affect the effective value of future payments. By contrast, the future income stream arising from owning stock in a company is far more uncertain, and that arising from owning leveraged assets such as an option on a stock in a company is extremely risky indeed. Hence the *current* value of any of these assets is sensitive, and in some cases highly sensitive, to expectations about these future income streams. To understand financial values, then, one must understand *how* investors form these expectations.

This is where the quote from Keynes with which this chapter opened comes in. Keynes, you will recall, wrote that in this situation investors fall back on a convention: “The essence of this convention […] lies in assuming that the existing state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change" (Keynes 1936:

152). This is rather an abstract convention, but it is easy to see how it could be concretized more precisely: investors might assume, for example, that a company that has paid a 3% dividend every year for the past ten years will continue to pay a 3% dividend in future years, or that a company that has grown its sales by 10% a year for the last five years will continue to grow them at a similar rate. Conventions like these are often employed by *value* and *growth* investors respectively. This class of conventions, however, is oriented to the income side of the payment stream that might be expected from an asset and treats the resale element of the payment stream as secondary.

Keynes, however, recognizes that some investors, and investors more generally in some market conditions, take a more speculative view of asset values. In these cases, asset valuation tends to be dominated by beliefs about the expected resale value of the asset rather than longer term income streams, and here he provides us with what is often regarded as a second convention (although he didn't apply the term *convention* to this example himself). This is the so-called "beauty contest" model of valuation [cross reference: Understanding Finance Through Convention Theory]. The model is built by analogy with a form of competition that used to be found in some newspapers, "[…] in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole" (Keynes 1936: 156). In the context of stock exchange investment, what this means is that investors seek to anticipate which shares will be most attractive to other investors and hence which shares will increase in value, then buy those so that they can later resell at a higher price and realize a capital gain. This convention, then, is to value assets depending on how one expects other investors to value them over the period when the buyer expects to resell them. Again, this is quite an abstract convention, and it can be concretized in a variety of ways.

André Orléan, the most influential contemporary convention theorist of financial value, picks up the story here [cross reference: Convention Theory as an approach to financial bubbles and crashes]. Financial value, he argues, depends on *mimesis*, a concept he adopts from the work of René Girard (Orléan 2014). Mimesis is the human tendency to imitate, not only the actions of others, but also their desires, leading to rivalry in the pursuit of those desires. Girard suggests that humans do not know what they desire until they latch onto the desires of others and imitate them (Orléan 2014: 51, 83). As Orléan points out, there is a strong parallel here with the work of Veblen, who argues that the pursuit of conspicuous consumption is driven by a need to display social status, and this is achieved by mimicking

the consumption patterns of those who already possess such status (Orléan 2014: 78, 92). Again, this social orientation conflicts with the neoclassical model of the economy: "It is prestige, not utility, that encourages members of a market society to acquire more and more commodities" (Orléan 2014: 92). And it is not only commodities that become a common object of desire: he credits mimetic desire with "[…] the effect of creating a community that is unified in its reverence of the same elected object": money (Orléan 2014: 175). It is this reverence that provides the motive for financial speculation and accumulation, and "Nowhere is the explanatory power of the mimetic model clearer […] than in the case of financial markets" (Orléan 2014: 175).

Here, yet again, the approach of EC/SC must be contrasted with the neoclassical approach, for which "[…] the value of a financial security is wholly independent of the opinion of investors" because it can be derived from objective knowledge about the different probabilities of possible future income streams (Orléan 2014: 189). Following the work of Frank Knight (1921), Orléan argues that future income streams and valuations cannot be evaluated using the probabilistic calculus of risk, because the probabilities of different possible outcomes are unknown (Orléan 2014: 191–195). Hence attempts to estimate future revenues are faced not with calculable risk but with incalculable uncertainty, and "In a world characterized by radical uncertainty […] it is impossible to determine the true value of a security" (Orléan 2014: 195). Investors must therefore rely on judgement to assess the value of financial assets.

Investors, however, need not rely only on their own judgment: the point of the mimetic hypothesis, applied to financial markets, is that investors are influenced in their beliefs about value by the judgments of other investors. This is the significance of the point from Orléan mentioned earlier: that "A price […] has normative authority" (Orléan 2014: 225). It is mimesis, according to Orléan, that gives prices authority, because investors take them as indicators of other investors' judgments, which they are predisposed to imitate. Orléan connects this up to Keynes's beauty contest model, which he takes to capture this "self-referential dimension" of markets (Orléan 2014: 212). This also introduces the risk of positive feedback loops into financial markets: if a rise in an asset's price leads investors to increase their estimate of its value, it may lead to further buying, further price increases, and a continuing upward pressure on prices (Orléan 2014: 203–204).

It is not only prices, however, that trigger a mimetic response from investors. When investors realize that other investors are employing particular principles to guide their valuations, they have both a mimetic desire and a material incentive to adopt the same

principles themselves. They can forecast the reaction of the market to any situation by applying those principles, and when this becomes clear those principles become conventions (Orléan 2014: 220). Because investors believe that the market will follow the convention, it is in their interest to follow the convention themselves – to buy the stocks that the convention suggests should go up – even when they themselves believe that the resulting valuations are unreasonable (Orléan 2014: 222–224). This was what lay behind the Internet stock boom of 2000, when investors accepted the "eyeballs" convention that Internet firms should be valued on the basis of the number of visitors to their websites. Such conventions, however, can also break down, as this one did when the resulting valuations started to look excessive and some investors started to bet against the stock of heavily loss-making Internet companies, bursting the stock price bubble (Orléan 2014: 228).

Beckert offers a similar argument in his book *Imagined Futures* (Beckert 2016). Under uncertain conditions, he says, investors form "fictional expectations", which are fictional in the sense that they are speculative narratives, constructed without a firm basis in evidence, but then come to be treated as reliable (Beckert 2013: 323–5). Beckert, however, does not attribute these expectations purely to mimesis, but instead stresses that they are deliberately influenced by market actors. "Stories" he says, "[…] are told by all market participants in order to influence investors' confidence that markets will develop in a certain direction" (Beckert 2016: 82). The stories that achieve most influence become valuation conventions – a term that he attributes explicitly to Orléan (Beckert 2016: 151).

Elder-Vass (2022) provides chapter-length case studies of how financial valuation conventions have been employed to boost the values of the cryptocurrency Bitcoin, stock in the firms backed by venture capitalists, and the structured sub-prime securities that were at the heart of the 2008 financial crisis. He discusses, for example, the initial public offering (IPO) in 2017 of shares in the social media company Snap, looking at how the case was made that these shares were worth buying and at the narratives that were advanced about how they should be valued (Elder-Vass 2022: 121–122, 132–142). Several groups of actors with a strong material interest in the price of Snap shares, including the founder and part-owner of the firm, the venture capitalists who had invested in it, and the investment banks who had been engaged to underwrite the share issue, supported these narratives. Ironically, perhaps, the core narrative was closely related to the eyeballs principle that had flourished then floundered during the Internet stock boom of 2000. By 2017, a few social media companies had started to make large profits based on advertising to their regular users, and Snap argued that it should be valued by comparison with the most successful of these companies. This is

an example of a class of valuation conventions known as “relative valuation” in which companies are valued by comparing them with other companies that are claimed to be similar in crucial respects (as opposed to “absolute valuation”, which is based on more firmly founded cashflow projections for the business itself) (Damodaran 2018; Elder-Vass 2022: 126). Specifically, Snap’s advocates – its value entrepreneurs – argued that it should be compared with Facebook, and valued on the assumption that it could attract as much advertising revenue per user as Facebook did. Given that at the time of its initial public offering, Snap had never turned a profit and indeed in the previous year it had made a net loss larger than its income, this was clearly an aggressive way to value the company. But the narratives worked: at the end of the first day of trading, the stock closed at a price that valued the company at $28.3 billion (Kuchler 2017). Clearly an important audience of investors had been persuaded to apply the relative valuation convention and the comparison with Facebook to Snap.

6 Asset circles

This brings us to an argument that has tended to be neglected throughout the study of valuation: for conventions to be effective they need not only advocates but also audiences that have been persuaded to accept and apply them (Elder-Vass 2022: 77). This argument runs somewhat counter to Boltanski and Thevenot’s rejection of Bourdieusian understandings of the significance of social groups (2006: 16). On the other hand, in a somewhat similar argument Desrosières insists that for statistical innovations to become established as conventions their advocates must find sufficient allies to back them (2014: 64). Turning to valuation more specifically, Elder-Vass argues that conventions and narratives can only affect the world when they are accepted by publics that are then influenced by them in their actions. This is of particular importance for financial assets: without a group of potential investors who would be willing to purchase them, many financial instruments (those that do not have a redemption value) would be worthless, and thus not really an asset at all. For an investor to be open to consider purchasing an asset in turn depends on several other factors, including: knowing that the asset exists, thinking of it as something that it might be attractive to purchase, knowing how to purchase it, and having a way to assess whether the price is right. Financial valuation conventions supply the last of these requirements, but Elder-Vass has argued that for financial instruments to function as assets, the first three must also be met, and

developed the concept of *asset circles* to account for how this happens. He argues that every asset must have an asset circle, and defines an asset circle as " […] a group of people and/or organizations who see these securities as worthwhile investments that they might realistically be prepared to purchase" (Elder-Vass 2022: 81).

Yet again, this contradicts some of the basic assumptions of neoclassical theory. The neoclassical model assumes that all market actors are in possession of full information about all products and open to purchasing whatever mix provides them with optimal satisfaction of their preferences (Elder-Vass 2022: 80). In the real contemporary world, the vast majority of people are unaware of the vast majority of products and assets available for purchase, and never consider themselves to be potential buyers even for many of the products and assets of which they are aware. Most private investors, in particular, are exposed to only a tiny proportion of the financial assets available in the markets. Even most professional investors tend to focus on a small section of the financial markets, believing that to invest successfully they need to understand the market they are operating in and that it is not possible to understand the full range of financial markets in enough depth to invest in them successfully (Elder-Vass 2022: 110–111). In practice, then, the market for any given financial instrument is a much smaller group than the group of all market actors. Rather, it consists of those investors that are aware of the instrument and believe they understand it well enough to consider actually investing in it – the asset circle for the instrument.

Perhaps the most striking evidence for the importance of asset circles is the enormous effort that value entrepreneurs devote to trying to expand them. A particularly clear set of cases is provided by the various privatization initiatives pursued by neoliberal governments since the 1980s, which were accompanied by substantial advertising campaigns designed to encourage members of the public to invest in the shares of the newly privatized enterprises (Elder-Vass 2022: 80–81). The UK government's "Tell Sid" campaign, for example, persuaded hundreds of thousands of people, most entirely new to investing in shares, to buy shares in the new company (BBC News 2011). These campaigns built asset circles for particular stocks but also for stock market investment in general. Professional investors are also subjected to campaigns to draw them into new asset circles, as Emily Barman (2015) documents (though without using the term) in her account of the growth of *impact investing*, which was driven by the Rockefeller Foundation in particular, for example by developing new indicators that could be used as part of new conventions for valuing investments motivated by social as well as economic concerns.

Elder-Vass's case study chapters also trace the ways in which asset circles have been developed for specific assets and asset classes. One can, for example, see large parts of the life cycle of the venture capital process as a series of attempts by value entrepreneurs to expand the asset circle for shares in the portfolio companies in which venture capitalists invest (Elder-Vass 2022: 121–144). In the first stage of the process, potential portfolio companies put together business plans that they use to pitch their companies to venture capitalists, in an attempt to persuade them to invest. At this stage, the asset circle for the company's shares is generally very small, typically consisting of the founders and perhaps a few "angel" investors, and the founders' objective is to draw the venture capitalist into the asset circle. If they are successful, the venture capitalist will both invest and also provide support to help the company grow and build its reputation – it may, for example, appoint famous business people or politicians to the board. Next, typically, come further funding rounds, in which the original venture capitalist joins with the founders in recruiting further venture capitalists into the asset circle, which not only makes more funding available to the firm but grows its reputation further. Eventually, for some of the most successful portfolio companies, the lead venture capitalist will appoint underwriters to launch the company's shares onto the stock exchange in an initial public offering like the Snap IPO discussed earlier in this chapter. At this stage, the underwriter's job is to expand the asset circle further, recruiting institutional investors to take large tranches of the company's stock on IPO day. Meanwhile, the company's valuation narratives are also pushed out into the financial media, often supported with analyst reports, in an attempt to draw private investors into the asset circle too, generating public demand for the shares and ideally an "IPO pop" with the share price rising on the first day of trading. At every stage of the process, the key actors act as value entrepreneurs, deploying valuation conventions and narratives connecting the portfolio firm to these conventions, in order to widen the asset circle, the group of potential investors in the company's stock, because they know that this is a key step of the route to raising the eventual price of the stock.

7 Conclusion

EC/SC has played an important role in recent debates on the monetary value of both commodities and financial assets. It is often drawn on in the broadly sociological field of valuation studies, where conventions are sometimes invoked explicitly in explanations of

how valuation processes proceed, and sometimes employed implicitly by scholars who do not recognize their provenance in contemporary convention theory. Scholars in valuation studies, however, tend to be reluctant to offer their work as a contribution to *economics*, as an alternative theory of price or even as a contribution to such a theory. Yet Keynes saw the concept of conventions as a contribution to the theory of the price of financial assets, and André Orléan has picked up this baton and developed a self-consciously *economic* convention theory of financial asset prices. As a tradition with feet in both the sociology and economics camps, EC/SC is ideally placed to bring the sociological insights that underpin convention theory to bear on economic questions. This gives it an important role, along with other forms of institutional economics, in the construction of an alternative to the dominant neoclassical paradigm in economics.

One of the lessons of this chapter is that EC/SC operates not only through the work of thinkers who are firmly and exclusively identified with the tradition, but also through others who draw on convention theory as a resource while at the same time employing resources from one or more other academic traditions. If the influence of the conventions tradition is to grow, it is perhaps inevitable that it will intertwine with others. One implication is that it would be a mistake to think of the conventions account of value as a single unified and consistent theory. Instead, there can be multiple different applications of EC/SC to a field, which may or may not be compatible with each other. A commitment to conventions theory, as a result, does not necessarily commit one to endorse any specific application of it. It should not be a dogma, to be interpreted in only one possible way, but a resource, to be adapted and synthesized with other useful resources. That is the spirit in which it has been productively employed by, for example, Beckert and Elder-Vass.

Finally, as has been shown repeatedly in the chapter, the EC/SC approach to value provides a powerful critique of the neoclassical tradition of economics. In doing so, however, it also implicitly critiques the existing economic system to the extent that it is based on neoclassical economics. A key justification that is deployed for current financial markets, for example, is that they provide objective prices for financial assets as part of a process that leads to an efficient allocation of capital. But if, as work in EC/SC suggests, financial valuation processes are driven by irrational mimicry and by deliberate manipulation by value entrepreneurs of valuation conventions and which assets they are applied to, then the legitimacy of the contemporary financial system must be questioned. Convention theorists are by no means the first to raise criticisms of neoclassical economics that undermine justifications for financial markets, but they add an important set of arguments to the case.

Cross-references

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