Introduction
In search of a new bed: Economic representations and practices

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1.
The purpose of the introduction is to outline a debate to which this volume is intended to contribute with a number of case studies. Since the editors believe that the debate is not widely known in Germany, they start out from a generally familiar set of questions and proceed from there to what is specifically new. The procedure also appears appropriate since this is a transdisciplinary project between the research fields of economics, sociology of knowledge and of science, organization research, as well as social and cultural anthropology, without concentrating upon just one of the disciplines.

Aside from economics, there has always existed economic anthropology and economic sociology. What the editors have in mind is a new approach to be labeled Social Studies of Economics analogous to what has become in the meantime the established field of Social Studies of Science and Technology. The most important difference to conventional economic anthropology and sociology consists in the concentration on the performative function of economic representations. The present volume is a first step in this direction.
To be more specific, the purpose of the introduction is to change the ‘bed’ in the metaphor of ‘all economies are embedded’. The empirical basis for such a reorientation is given in research work: In the last few years, not only the editors have dealt with questions concerning transformation in the East and the South and have repeatedly encountered the difficulty of an adequate conceptualization of the so-called ‘introduction of the market’.1

2.

The famous metaphor of the embeddedness of the economy was introduced by Karl Polanyi2 and is popular to this day. Upon closer examination it refers less to ‘embedding’ the economy in general, but more particular to ‘embedding’ the conglomeration of core economic institutions known as ‘the market’. The metaphor does not make sense until it is considered against the background of a certain assumption. The premise is: ‘The market’ is a natural phenomenon found in the world as one can find pebbles on a river bank, pick them up and look at them. The function of the metaphor consists in making the premise invisible and declaring it to be something self-evident, something that can no longer be questioned. As soon as this definition of reality is accepted, it appears consistent and evident to conceive of ‘the market’ as being legal-politically and socio-culturally embedded in a more or less successful way. In ordinary language and in public discourse – for instance in the media – one rarely speaks of the ‘embeddedness’ or ‘disembeddedness’ of ‘the market’. In this context, the metaphor of ‘curbing’ has established itself. Which, however, operates with a similar distinction: like the natural passions of human beings, ‘the market’ is primordially given and must be disciplined in terms of civilization.3

2 Polanyi 1944/1990.
3 Viewed empirically, there can be, at best, many different markets, but on no account ‘the market’. ‘The market’ exists in the same way as, for example, ‘marriage’ which only occurs empirically as innumerable married couples. These married couples have a common structure and set of rules despite all of their differences. The singular form ‘market’ is metaphorical and its function is to draw attention to the set of rules of the game that constitute an abstract unit with its own

The metaphor contains an old dispute revolving around the possibility of intentional political control (or embeddedness) of markets. The argumentation can be simplified, without much loss, like this:

The point of departure is the assumption that the economy of pre-capitalist societies is not yet differentiated as a sphere of its own. In this case, economic transactions are still absorbed by the other spheres of society so that gift exchange dominates.4 Karl Polanyi’s typology differentiates economic exchange relations into (1) reciprocal, (2) redistributive and (3) market transactions. While all three types occur in all societies, in pre-capitalist societies reciprocal and redistributive economic exchange relations predominate. Here, economic transaction is always political, religious and communal action at the same time. The actors do not – or only exceptionally – perform an exchange for the sake of a direct advantage, but rather on the basis of certain social roles: for instance as a mother’s brother or a sister’s son, as in-laws, or generally on the basis of status-related transfers. Acts of exchange result here in lasting social ties.

The next step consists in gradually removing, or disembedding, economic transactions from such status relations and transferring them into free contractual relations. Thus acts of exchange are made possible which are directly and exclusively concerned with economic benefit. Under such conditions, market transactions are carried out in a way that the actors can part without lasting obligations. They are free again to behave according to purely economic criteria in the next round. Once this regime has become fully developed, one refers to ‘the market’ economy or capitalism.

The political corollary of this argumentation (which of course has been terribly shortened here) consists in a skepticism with regard to the consequences of the differentiation process just outlined. Since the social disruptions of early industrialism, reflected in Marxist political economy, people have doubted whether this kind of liberation by means of disembedding economic transactions will lead to a desirable way of life. They fear that an unleashed ‘market’ will gather a momentum that will become

structure and internal logic. The common expression ‘curbing the market’ is a catachresis that naturalizes the abstract phenomenon ‘market’ and thus makes its fabrication invisible. In this text, ‘the market’ is put into inverted commas to call attention to the constitution of the common structure and set of rules and to remind us of the invisibilization it performs.

4 Mauss 1923/1968.
less and less controllable. A central problem of the self-propelled market economy is the fact that it removes human beings from their ties and makes them superfluous. The recent thrust towards globalization has revived these fears, which is why more embeddedness is again being called for today.

The theoretical end of this argument consists in its own dissolution. In line with political demands, many theoretical efforts are directed at declaring the contrasting of embedded and disembedded economic transactions as unsuccessful. Some have pointed out that every economic action and all markets are legally and culturally embedded in order to function on a permanent basis. Others have pursued the dissolution of the argumentative line in the reverse direction: Under the names of "Rational Choice", "Public Choice" and "New Institutional Economics" they have attempted to prove that the bed of the market economy is formed in accordance with the same laws as the markets themselves.

It appears that the most conspicuous result of the debate about the controllability of the markets consists in the fact that two incompatible language games have emerged. Those who are close to Rational Choice Theory and those who are close to conventional Cultural Theory can no longer communicate with each other in a productive way. For Cultural Theorists Rational Choice is a style of thought referred to as libertarianism explicable by reference to a particular socio-cultural frame and thus an object of cultural analysis like any other style of thought, e.g. fatalism, egalitarianism, or hierarchy. For Rational Choice Theorists Rational Choice is a methodological assumption of universal validity. A dialogue between two positions considering each other mainly as objects of their respective enquiry can hardly work.

The *de facto* worldwide victory of capitalism after 1989 poses a particular problem to critics of economic liberalism who rely upon one or the other version of conventional Cultural Theory. This historical development appears to have pulled the rug out from under their feet. Over and above that, some of the arguments for deregulation and even some deregulatory measures are simply irresistible even for the critics. Consequently, the impression easily emerges that there is only one game left in town – or else stay at home. However, it can hardly be denied that of all historical societies, market society is the only one laid out in such a way that the success of its functioning is bound to deprive part of its players of their dignity, of being needed by others. This deprivation goes hand in hand with poverty and the humiliation of depending on the benevolence of others. At the moment, this deprivation is again occurring on an unforeseen large scale. The representatives of Rational Choice Theory have no convincing response to the problem, particularly since economic growth, as an indispensable factor in their models, is possible without an increase in employment. Furthermore, economic growth can no longer be upheld as a necessary precondition of the reasonable functioning of the economy for ecological reasons.

In order to understand or perhaps even to overcome the apparent lack of alternatives in current economic policy and the incompatibility of language games, it may be worthwhile to take a closer look at the metaphor of embeddedness.

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1 Mark Granovetter 1985 took up Karl Polanyi's argument and, in a differentiated fashion, applied it to every form of economic behaviour drawing attention to the importance of networks. Bernard Barber 1995 comes back to Polanyi's argument again and asserts that its benefit is nowhere near being exhausted. He stresses the three types of economic transactions (reciprocal, redistributive, market) in every type of economy to be analyzed in their entanglement. So it becomes clear that all economic action is necessarily embedded. For Max Weber (1904/1920/1972 and 1922/1972) it was self-evident that "tempered capitalism" is embedded, although he used another terminology to express this idea.


3 Here, Cultural Theory is seen as a common denominator which connects Polanyi's approach with representatives of the so-called moral economy (Thompson 1971 and Scott 1976), and with arguably the most lucid formulation of the basic idea by Mary Douglas 1987. The hardened front between Rational Choice Theory and conventional Cultural Theory is explicitly taken up by Wildavsky 1994 and Eckstein 1997. Barbara Hermstein Smith 1997 produced an illuminating account of the deadlock in the debate between cultural constructionists and objectivists in search of normative knowledge. Current new formulations of the question at issue produced by Cultural Theory will be shown below.
As already mentioned, even today some critics talk about a new and urgent necessity to embed, i.e., control, 'the market' more effectively. It is assumed that in the course of the new thrust towards globalization beginning in the 1980s 'the market' threatens to turn into the ultimate rule of all things. The critics often speak in the name of morals and humanity, whom they want to protect from ruin. In recent years, heckling of this kind has come from Pierre Bourdieu, Amitai Etzioni, Richard Sennett, Eric Hobsbawn, and even of George Soros and many others.

There are three reasons why it appears appropriate to us to change the perspective for a critical discourse and thereby shift the meaning of the embeddedness metaphor:

Firstly, one can hardly fend off the impression that the appeals for more political control of the markets, arguing in the vocabulary of conventional Cultural Theory, are not taken up with any enthusiasm in the field of politics. If one does not want to attribute this to hardness of hearing or incompetence of political decision-makers, one must examine the meaning and the usefulness of these appeals. In doing so, it becomes obvious at first glance that asking the nation-state to curb the markets looks somewhat helpless when the animal would like to cup leaps over the boundaries of nation-states in an even more effortless manner. The transnational regimes for political control of markets, on the other hand, appear to limp behind the transnational potential of the market players in a comparably helpless manner.

Secondly, the dead end into which the dispute between Rational Choice Theory and conventional Cultural Theory has led appears to be a necessary consequence of both positions basically working with the same main premises and therefore only differing in their ideological assessment: The one believes in the healing, the other in the subversive effects of 'the market'. In this respect the dispute cannot come to an end, at least not a scientific one.

Thirdly, the implication of the dispute over embedding 'the market' as curbing a mechanism following laws of its own has been fundamentally questioned irrespective of the dead end mentioned above. The idea that there is a distinct area of economic practices, that these practices adhere to certain inherent rules, and that these rules can in turn be discovered with the aid of scientific methods and finally be represented in mathematical form is based on the Correspondence Theory of Truth. This theory, which has never gone uncontested, has been challenged with new and stronger arguments. Within economics, Correspondence Theory ignores the fact that economic representations shape economic practices. Therefore, in the last resort, it also ignores that any regularities found in these practices might be due to the representations themselves and not to any inherent laws.\(^8\)

These three reasons speak for a shifting of the observer perspective. The solution that emerged over the last years amounts to a fundamental transition of conventional Cultural Theory. The so-called 'cultural turn' and its resultant 'practice turn' constitute the crucial points of this transition. Let us first look at the cultural turn.\(^9\) Following the debates that took place in the Social Studies of Science starting with Ludwig Fleck\(^10\) and gaining momentum with Thomas Kuhn,\(^11\) we can differentiate between two levels or frames of reference, objectivism and relationalism, and then

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\(^8\) In Economics, the argument mainly goes back to the work of D. McCloskey 1985. In Organization Theory it was introduced by Czarniawska 1997; see the next footnote for further explanations.

\(^9\) As a consistent consequence of Husserl's phenomenology and Wittgenstein's philosophy, the cultural turn amounts to understanding each practice as linguistic and cultural. In the new Social Studies of Science, science is not considered an extra-cultural concern (the most radical views are held by the Strong Program following David Bloor 1976/1991), rather it is expressly considered to be a cultural practice. Thus socio-cultural, legal-political and other influences affect in an illuminating way what was formerly thought of as 'pure' science. The 'laboratory' (acting for the place of science) no longer is the place that must be kept as clean as possible of such outside influences. Rather the other way around, what occurs in the laboratory is precisely a special socio-cultural achievement that should be analysed as such. The political point of the argument consists in the fact that one cannot defend the independence of science and simultaneously ensure its being tied to human interests until one does so from this perspective. Only in this way — so the argument goes — can one prevent further catastrophes: catastrophes that are committed in the name of truth and progress and that have left their mark on the last century. By the way, in the best of the excitement about this position it is often forgotten that it found early authoritative expression in Weber's famous essay 'Die 'Objektivität' sozialwissenschaftlicher und sozialpolitischer Erkenntnis' (Objectivity in Social Science and Social Policy) (1904/1973).


analyse their mutual relation. Transferring this approach from the natural sciences to our case, it means the following:

Economic practices are unavoidably situated within a certain frame of reference. Within this frame, decisions under conditions of uncertainty are the main task: for instance performing a cost-benefit analysis, calculating the value of a company or calculating the gross national product of a country and then deciding what to do. Operating within this first frame of reference and being obliged to make accountable decisions, one easily becomes incapable of acting and making decisions or, at least, one becomes unable to account for these decisions when self-reflexively challenging the frame of reference. The indispensable conviction of correspondence between representations and reality can be called objectivism. The crucial question accordingly is: "Are the figures a true representation of reality?" The fact that the figures are also rooted in the calculating procedures used to generate them has to be bracketed.

Negative surprises, the emergence of alternative procedures, radical criticism or professional theorizing may lead to stepping back and reflecting on the tools of decision-making instead of reflecting on the correspondence between figures and reality. By stepping back and reflecting on the tools, one moves into the second frame of reference mentioned above. Within this second frame the tools of economic practice are constituted by practices of representation. The reality-correspondence question that was crucial in the first frame is translated here into the question: "Is perhaps another calculating procedure more useful for the purpose at hand?"

Raising this question within the second frame necessarily invalidates the objectivist conviction governing the first, being - we repeat - : the figures upon which decisions are based or, at least, the figures by which decisions must be legitimised are anchored in a reality out there. In contrast, the focus within the second frame of reference is directed towards the performative function of the tools used within the first frame. This focus can be called constructionism or relationalism. The paradoxical problem now is that keeping the objectivist conviction of the first frame would make the move into the second frame of reference impossible because different frames necessarily have different external referents. Yet rejecting the convictions of the first frame makes the believers look credulous, while at the same time admitting that legal-political life does not work without belief in objectivism. The solution to this paradox is to bracket the conviction of the first frame as long as one operates within the second frame and vice versa. The move between the two frames of reference is based on code switching. This concept will become clear in the following.\textsuperscript{12}

The conclusion about the two frames of reference appears to be particularly delicate when it comes to markets. In markets everything revolves around expectation and the expectation of expectations. Every market decision is based on the hope that one's own expectations will be met by having correctly calculated the expectations of the other market actors, which in turn also only consist of expectations to which one's own expectations belong. In the context of unavoidable uncertainty, mental maps and images play a crucial role although they cannot possibly relate to an externally given point of reference.\textsuperscript{13} The importance and indispensable function of economic model construction is anchored in this paradox. While arguing within the second frame of reference it is obvious that these models do not correspond to an empirical reality out there. While making decisions and more importantly while defending decisions within the first frame of reference this constructionist attitude has to be bracketed.

Distinguishing between two frames of reference and interpreting the move between them as code switching results in a general conclusion: Numerical representations of economic practices do not only describe, but they also shape these practices. Representations and practices are inevitably connected to each other by a performative link. Assuming a performative link between the first and the second frame of reference, a scientific observer has three possibilities:

(1) Either she remains unaffected by all of this and returns to her work on the second level, where she intrepidly attempts to develop better models for the first level.

(2) Or she endeavours instead to analyse the construction of models within the second frame itself. In order to be able to do this at all, she

\textsuperscript{12} The full argument on code switching is given in Rotenburg 1999.

\textsuperscript{13} The problem can also be carried into the natural sciences; in fact the observation comes from there (as argued in footnote 9). For our purpose, however, it makes sense to uphold a difference between natural and social sciences. After all, certain illnesses, for instance, are hardly concerned about what one thinks about them or how they are described. In contrast, societal processes cannot be principally separated from their representations, because without them they have no right to exist.
must bracket, for the duration of the exercise, questions concerning the anchoring of models in economic practices taking place within the first frame. If she did not do this bracketing, she would miss the point of shifting the observer perspective.

(3) At least theoretically, there is also the possibility to tackle the production of representations that include their own performative effect. This approach amounts to considering the inconsistency between the convictions of the first frame (objectivism) and that of the second frame (constructionism) as a rectifiable error. Instead of living with the modest option of code switching between the frames of reference, this third approach aims at final self-inclusive and all-inclusive answers.

The authors of this volume have chosen the second way without, however, deeming the first and third possibilities to be fundamentally inappropriate. Concerning the prospects of the ambitious third way in particular, the authors prefer a simpler position and in this they follow Malcolm Ashmore\(^{14}\) who revived an old argument after the linguistic turn had seduced many into becoming too optimistic about reflexivity.\(^{15}\) When making a statement about the world it is impossible to reflectively call the premises of the statement into question at the same time. Such an attempt would never arrive at a conclusion and can therefore just as well be omitted in the first step already. The modest solution to this a priori is to conceive of reflexivity as a change of reference frames or as code switching. In doing so, the fabrication of nomothetic knowledge is declared impossible.

The second approach, which the authors prefer, may be seen as a more modest one. Its critics, however, consider it more presumptuous. This approach is not accidental and has to be analysed in order to understand the difference between the three outlined possibilities.

Who is convinced, for example, that a prophet is the true and sole spokesperson of God cannot and does not need to take the socio-cultural and political circumstances and consequences of prophecy seriously. The believing observer of prophecy is not interested in the rhetoric of prophecy, but rather in the message. Today, theological positions of this kind have little prospect of credibility. Within this context, scepticism and deconstruction are a matter of course. The point is right and proper thus far, yet somewhat cheap. In analogy, someone who believes that mathematically formulated economic representations are nothing else than the true and unadulterated expression of invisible economic realities also cannot take the legal-political and socio-cultural circumstances and consequences of economic representations seriously. This believing observer is again not interested in the rhetoric of the representations and their performative effect, but rather in the object being represented: the structure of economic practices.

Although the two observations are analogous, the believing observer of prophetically stated Godly Truth and the believing observer of prophetically stated Laws of the Market are usually treated differently. Relating the first belief to its frame of reference instead of its external referent (God) appears obvious. Doing the same for the second belief is less obvious. Here, sceptical deconstruction appears presumptuous. While operating within the reflexive code, most economic practitioners and most theoretical economists do admit or rather insist that their representations are merely models. These models, they say, do not pretend to mirror any structures given out there in reality. Yet at the same time many economists perceive their own work as a search for nomothetic knowledge: they want to discover Laws of the Market as something given out there in reality. And economic practitioners normally have to bracket constructionist reflexivity when they make and defend decisions. It is this kind of objectivism that distinguishes between the "wrong belief" in God and the "right belief" in the independent existence of Market Laws.

Others — and they shall have a chance to speak in this volume — maintain that the difference between religious and economic prophecy is not as large as one tends to believe. Like the religious prophet, the economic prophet would namely also overlook the performative connection between the propagation and that which is being propagated and, consequently, get into the same circular argument. (The issue here is the joy of finding Easter eggs that one hid in the first place.) To avoid this, one should, after the cultural turn, treat all representations symmetrically, i.e. equally, and hence examine all with the same agnosticism. And this is exactly were the point becomes rather touchy, at least for economic prophets who thus would lose the authority to speak in the name and only in the name of economic reality.\(^{16}\)

\(^{14}\) Ashmore 1989.

\(^{15}\) For the linguistic turn compare Richard Rorty 1967/1997.

\(^{16}\) David Bloor (1976/1991) has formulated this position.
Formulated in the language of autopoietic System Theory: The second possibility, chosen by the authors, consists in carrying out observation of the second order. This makes also clear: nothing better or nothing more than by observation of the first order shall be seen, rather something different. The position is more modest in so far as it has given up the hope of finding an objective observer perspective from which the whole game is synoptically revealed. Finally, it follows that economic actors are themselves in a position to jump back and forth between self-reflection and decisionist thinking or between first and second order observation.¹⁷

For economic prophecy to acknowledge its performative effect results in the assertion of a fundamental impossibility of formulating representations of Market Laws which would be valid according to a Correspondence Theory of Truth. Adopting this position is awkward for another reason that is related to the so-called practice turn mentioned above. The methodological principles of symmetry and agnosticism result in what has become known as Practice Theory. From the perspective of this theory, the fabrication of scientific knowledge appears in a new light. According to the conventional distinction drawn by objectivism there is 'reality' on the one side, which should be represented as undisturbed, pure and naked as possible by theory on the other side. However, disturbing, undesirable factors continuously influence the observation and the representation of reality. Such factors are interests, ideologies and paradigms. Observation and representation guided by scientific methods – according to objectivism – consequently consists in excluding the disturbing factors as completely as possible and allowing reality to speak for itself. This basic figure was eliminated within the framework of the so-called practice turn: The fabrication of knowledge does not simply consist in excluding the factors mentioned, but rather connecting them as firmly as possible with observer-independent realities. Under this assumption, representation practices (practices for the production of knowledge) become the focus of interest. For economic prophecy the new focussing is awkward in

so far as it is put on an equal footing with everyday practices of knowledge and thus loses its conventional authority.¹⁸

4.

The theoretical position of the approach adheres to the long-standing principle contained in cultural and social anthropology as well as in phenomenologic-hermeneutic sociology: Human beings do not act in the world, but rather in what they think is the world. Accordingly, the phenomenologic-hermeneutic question must be: How do human beings arrive at these instead of other concepts and mental images of the world? In the area of the concepts and images relating to society the answer can never be sought solely in an observer-independent reality, since society only constitutes itself indirectly via such concepts and images.

If one examines in this theoretical perspective 'the market' as an institution, it is misleading to trace the emergence of the institution and its diverse manifestations back to pre-institutional facts. In a similar vein, one (in accordance with Durkheim) is unable to satisfactorily derive the institution of marriage and its varied manifestations from the reproductive and sexual drive, or to adequately derive parliamentary democracy from a human being's desire for freedom and justice. Accordingly, one cannot trace the complex institutional network of 'the market' back to any primordial drive to maximize utility. Viewed in this way, the question about the constitution and function of markets is then as follows: How and out of what are markets produced? Or: How are societies formatted in order to enable particular forms of transactions that do not leave behind obligations, which only then and precisely for this reason are called market transactions?

From this perspective, 'the market' does not appear as a wild animal that has to be curbed before it can be reasonably used. Conversely, it is rather regarded as an institution that like all other institutions must be culturally brought forth, bred and looked after so that it reliably fulfills its

¹⁷ Luhmann's autopoietic System Theory does not serve as the background for any of the authors represented in this volume. Nevertheless, all of them argue from a position – namely the unavoidable impossibility of an objective observer perspective – whose most convincing explanation can be found in Luhmann 1991, even if the illuminating ethnographic work is written outside of System Theory.

task. The ‘breeding and looking after’ is referred to as *formatting*. The result of the formatting work is the institution of ‘the market’ which, in fact, can still be more or less ‘embedded’ in the conventional sense: that is more or less strictly controlled by laws, regulations, and standards. However, in this perspective the metaphor of ‘embeddedness’ no longer refers to the inculturation of the wild animal ‘market’, but rather to the fact that markets are the consequence of formatting work. Like all practices, the practice of formatting work is itself embedded in a frame of reference and in this sense it is consistent that the result of this work, ‘the market’, is also embedded in the same frame of reference.

Formatting thus refers to two levels. Firstly, markets have to be constituted by selecting rules and by defining the field where these rules are supposed to apply. The Internet and the issue of electronic money is a particular case in point. Secondly, within established markets procedures are constantly re-formatted with a tendency to spread standardization procedures of all kinds in order to enlarge the scale of market transactions. The creation of the Single European Market is a good example, but also the process by which international banking spreads standardized procedures to calculate, for instance, the value of companies. The most catching aspect of the formatting approach is the fact that it draws attention to a process whereby legal-political rule setting is somehow gently and partly unobservedly replaced by technical standardization of procedures. Similar to organizations that become more independent from the practical knowledge and the orientation patterns of their employees by delegating procedural control to standardized software, markets become more independent from legal-political and socio-cultural institutions by relying more on technical standardization procedures.

From this perspective, one can be a bit more critical about the current debate on the controllability of markets: It has not yet been conclusively refuted by this way of reasoning whether or not global capitalism is a teleological fate. However, a new and perhaps more effective possibility is created for imagining ‘the market’ as something other than unavoidable fate.

19 Laurent Thévenot 1984 and 1997 introduced the term ‘formatting’ into the debate, and it was taken up by Callon/Latour 1997. Our argument beginning here is informed by a suggestion of Callon 1998a.

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A simple illustration that shifts figure and ground sheds more light on the suggested Gestaltwandel (Max Wertheimer) of the embeddedness metaphor (Illustration 1):

![Illustration 1](image)

In the conventional Perspective 1, which goes back to Polanyi, ‘the market’ is regarded as something given ‘out there’. As already mentioned, conventional Cultural Theory and Rational Choice Theory concur in this basic assumption. From this viewpoint, ‘the market’ is or should be legal-politically and socio-culturally fenced-in so that it does not penetrate into all spheres of existence and commercialise all goods including justice, truth, and love. The motor of transforming all goods into commodities is situated in the logic of market transactions (marked as a white network in the illustration). In this mental image, that which shall embed ‘the market’ and curb its impetuous powers lies outside ‘the market’ (marked as a black network in the illustration). It is society, in particular its laws and its morals, that provides the Procrustean bed of ‘the market’. The metaphor of ‘embeddedness’ refers to the control of a power that is assumed to be given in the nature of economic transactions and thus has always been there. There is only a question of how large this bed as a societal frame is permitted to be or, the other way round, how large ‘the market’ is allowed to grow into society.

20 Ernst Gellner 1983 follows this classic pattern of argumentation, and he con-
Perspective 2 illustrates the alternative view. As already mentioned, it is based on the cultural and the practice turn of conventional Cultural Theory. From this perspective, 'the market' is always the result of activities of embedding or curbing and never any ex ante given object with inert powers to expand. 'The market' is thus conceived of as a partially intended and partially unintended effect of legal-political and socio-cultural formatting work. This work aims at first establishing and then keeping an arena called 'market' clear so that transactions can be carried out there which do not leave social ties behind that could distract future transactions from the calculus of benefit. Against this background the objective of formatting work does not appear to be 'embedding the market', but rather 'disembedding the market'. It is for instance a matter of keeping economic transactions free from political influence. In this mental image, the motor of the process with whose control we are concerned does not lie in 'the market', but rather outside of it (in the illustration it is marked by the inversion of the black and the white network).

At this juncture the suggested Gestaltwandel of the embeddedness metaphor can be brought to the point we have in mind: Markets are by necessity legal-politically and socio-culturally embedded inasmuch as they are made possible through formatting work. This formatting work itself cannot be derived from market transactions since they are the result of the formatting work. At the same time, markets are disembedded inasmuch as the formatting work consists especially in defining a framework within which only that which is calculable and economically efficient is valid. Finally, a logic can emerge within this framework which then is named 'logic of the market'. What can be calculated, how it can be calculated, who does the calculation, and what must be excluded from economic calculation is a result of the defining work carried out by formatting.

Pollution laws in the United States, for instance, are connected with the 'logic of the market' in another way than in Germany. The North American government keeps a much lower profile in controlling the observance of pollution laws. It is rather the lawyers' aspiration to profit that has to call on the interests of possible injured parties in order to enforce the laws. As a result of this particular North American formatting, the 'logic of the market' should enhance law enforcement. According to the German formatting, law enforcement and profitmaking should be kept apart as far as possible.

5.

When it comes to publicly justifying decisions that affect many people, science is frequently referred to. When it comes to creating and formatting markets the same holds true. If one follows the official justification for economic reforms, at the end of the path of argument one always arrives at the science of economics. Even if the course is set in the area of politics, which holds sole responsibility for it, a central characteristic of modern political decision-making consists precisely in referring to objective reasons outside the realm of politics. The expert opinion of independent scientific organizations represents an important pillar of politics. What is particularly obvious here is the fact that, with an increasing tendency, there are virtually no positions in any area of scientific knowledge that remain uncontested: a counter-expert opinion for every expert opinion. Finally, the genuinely political task consists in choosing between the diverging scientific positions and possible models without being able to fall back upon scientific methods. Economic policies that are chosen on the political level in this way have a formative influence then on concrete economic developments and the modes in which markets function. Or they are defeated by the opposition of economic realities that have already been institutionalized by previous formatting work of the same type.

In this sense, it can be said that economic theories are essential for economic practices. This is, by the way, also the explicit objective of those economic theories that would like to produce nomothetic knowledge in order to enable better economic policy. However, if the object of economic theory (in this case 'the market') is itself molded by the same theory (in the sense of Merton's basic theorem), one finds oneself in the middle of a foundation paradox. 21

At the level of economic policy and economic activity as well as within the framework of official justifications for these activities in the

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21 The gist of the theorem is: What human beings believe to be real, has real consequences (Merton 1949/1995).
political arena, one would be well advised to ignore or deny any disheartening awareness of the foundation paradox. Within the framework of the illustration above, it means taking up Perspective 1. However, this is merely a pragmatic necessity and not a theoretical solution. We do not suggest that the pragmatic bypassing of the paradox is dispensable, nor that it would be preferable to replace it with an objective, theoretically founded solution. Quite to the contrary, it has to be repeated and emphasized that, since the foundation paradox is unsolvable, the pragmatic bypassing of it cannot be allowed to figure as an objective solution.

On the level of scientific observation and economic policy reflection one has the opportunity to move to the second order observation as introduced above and thus take up Perspective 2. Here one can observe which markets are produced by which economic representations. This production takes different paths: economic policy, economic law, administration, training of the participating professions, or the circulation of standard models by consulting firms. At the core of all processes formatting markets one finds the same basic exercise: to standardize everything concerned with economic transactions according to defined scales, norms and calculating procedures in order to make things comparable and thus marketable.

In brief it can be established: The point of departure is the assumption that economic representations are unavoidably performative. Starting from here, the key question of an updated economic anthropology is directed towards the practices of producing economic representations that contribute to the formatting of markets. The authors of this volume are primarily concerned with the production of economic representations by scientific and everyday practices.

6.

Economic activity always presupposes calculating. What is exchanged against what must be established in order to able to say at the end whether one has made a profit and come out even, i.e. without further obligations. Only in this way can a transaction be concluded and become calculable. This means, however, that a delimiting framework must be defined that excludes a series of phenomena, such as externalities, which would make calculating difficult or impossible.

When referring to market failure in economic theory, the issue is the wrong or right definition of the framework and the externalities it implies. Positive externalities exist when an economic actor receives benefits from the investments of other actors at no charge, for instance investments in research and development, whose results are a public good. In this case market failure becomes probable: Public interest could suffer from R&D investments casing off, because everyone is waiting for the others to take over the investments in order to profit themselves at a later date. Negative externalities exist when activities of an economic actor inflict costs upon other actors which they cannot pass on or pass back, for instance in the case of environmental pollution. So a distortion of ideal market relations is created that is described as market failure.

It is precisely this work of creating the right framework in order to exclude undesirable externalities or to avoid market failure that can be referred to as formatting according to Laurent Thévenot. The focus of formatting work is standardization methods for generating sets of figures with which one can delimit transactions from their externalities, calculate them, and thus carry them out. When markets function well, from the viewpoint of this approach it is because their underlying formatting turns out to be a self-fulfilling prophecy, and not because the formatting has done justice to an internal nature of ‘the market’ that has always been given.

Over the last ten years or so, the social sciences have become distinctly more curious about the practices of producing economic representations, and in particular sets of economic numbers. As already mentioned, this curiosity can be traced back to the cultural and the practice turn. On the other hand, it is also connected with the worldwide triumphant march of economic deregulation, state devolution, and the related acceleration of economic globalization. None of these occurrences becomes possible until uniform or at least compatible formatting has been achieved in order to enable control over a great distance. The guarantee of the stability of ‘the market’ as an institution gradually shifts from the setting of legal, political and moral institutions, which are unavoidably

22 Donald MacKenzie makes this point clear in his chapter on “Long-term Capital Management”.

restricted to a local or national level, to the standardization of the market processes themselves which, in principle, are not subject to local limitations.

In the debate taking place within this context, four monographs may be considered seminal works which make the intention of this volume more easily understandable. In 1998 Alain Desrosières published his *The politics of large numbers: A history of statistical reasoning* (originally in French in 1993). Mainly dealing with government statistics pioneered by Adolphe Quételet (1796-1874), Desrosières shows, firstly, how the development of statistics and of economic theory have influenced each other and, secondly, how statistics not only describe the social world but also shape it. The famous example, of course, is the annual suicide rate. By establishing it through statistics for a certain population (in this case the nation), the population becomes a real entity with a certain attribute, namely its suicide rate which cannot be explained by reference to the individuals having committed suicide.

In 1995, Theodore M. Porter published *Trust in numbers. The pursuit of objectivity in science and public life*. In his work, Porter consistently carried what had long been regarded as a general consensus in other areas of social scientific representation into the field of numeric representations: Aggregated sets of figures cannot be better or even more strictly examined within the frame set by Correspondence Theory than narrative representations. In both cases the mode of aggregation or the method is the decisive factor, which cannot be directly examined against reality.

In 1997, Alfred Crosby published *The measure of reality. Quantification and Western society, 1250-1600*, an analysis of quantitative thought as the cultural-historical development of a particular style of thought based in the History of Science. In the same year, Michael Power’s *The audit society. Rituals of verification* was also published. Power has demonstrated how the currently rampant trend of increasing predictability and responsibility through the expansion and reinforcement of calculability merely leads to a new form of ritual verification processes.

(1) Managing Uncertainty

The transformation of the former socialist states in Central and Eastern Europe is a challenge for the modern lending business due to the conditions of uncertainty that prevail in these countries. Obscure legal situations and regulations, obscure property rights, and a lack of standardized accounting practices are only three examples of the difficulties the lending business faces. Two of the papers in this volume take a closer look at processes of dealing with this particular type of uncertainty.

Andrea Mennicken (*"Figuring Trust"*) explores credit relations in Russia as a figuration of personal trust and system trust. She shows how the solvency of an enterprise is constituted by a precarious balance between a more formal risk management, which is founded in Western schemes of risk analyses, and personal business ties, which quite often have their origin in socialist times. The concept of personal trust is used to show how economic actions are embedded in social mechanisms.

Herbert Kalthoff (*"The Inventory of Firms") scrutinizes decision-making within international banks. In his case study, credit processes are primarily managed by two departments: Corporate Banking and Risk Management. The paper focuses on how relevant knowledge is generated in negotiations between these two departments. The interpretation of the retrospect figures provided by business enterprises applying for credit and the transformation of these figures into the bank’s own format is analysed as a technique for constructing evidence.

Against the background of these case studies from Central and Eastern Europe, Trevor Pinch, Malcolm Ashmore and Michael Mulkay (*"Cost-Benefit Analysis in Practice") use the British National Health Service to examine a particular kind of cost-benefit analysis known as “option appraisal”. Within this context, the paper analyses the practices of health economics performed through figures. It is shown that the success of cost-benefit analysis lies in its ‘ability to continually trade between the world of facts and figures and the world of words and politics’.

(2) Figuring Out Facts

Organizing includes multiple translations between realities (worlds) and their representations (words and figures). At the core of these translation processes one finds the creation of interdependent facts, mainly by way
of their presentation as figures. This translation work is analysed as a practice sui generis that cannot be explained by making reference only to the facts, nor can it be explained by making reference solely to the numerical procedures. The case studies contained in this section are taken from the North (Europe) and the South (Africa).

Barbara Czarniawska ("From Worlds to Words") looks at the organizational practices of translating humans, objects and actions into numbers, and the reverse operation of translating words and numbers into actions and objects. The chapter illustrates these practices using the preparation of a budget proposal. It explains organizational practices as translation chains that forge links between different actions.

Richard Rottenburg ("Accountability") scrutinizes the relationship between predictability and legal-political accountability. Within this context, he focuses on the role of "projects" and financial accounting based on the case study of a development project in Tanzania. Counter to the usual assumption that it is informal practices of appropriation that undermine project objectives, this paper demonstrates that the purpose of the project can also be undermined by accurate financial accounting.

Eva Gustavsson ("3.4 Satisfied") explores the devices for monitoring and organizing the interaction between personnel and guests in the hotel industry. She scrutinizes some of these organizing devices that "rotate" in larger hotels and shows that while they rotate, they construct service quality and satisfied customers as "quasi-objects." These routine and non-routine transformations have to be performed in order to verify the existence of quality and satisfied customers in a hotel setting.

(3) Financial Market Practices

The global economy is a world of circulating commodities that ignore national boundaries, the most impressive examples being financial markets. It seems that in recent years, financial markets have gained more and more importance because of the huge financial resources they can make available to business enterprises acting on a national or global scale. The following three chapters develop a micro-perspective on the work done in financial markets.

Alexandru Preda ("Financial Knowledge") examines the transformation of financial knowledge during the 19th century, when new rules were established for acting in financial markets. Using new modes of representation (e.g. manuals, handbooks) as cognitive instruments, he analyses various shifts with regard to understanding market activities, commodities, and the financial market itself. The paper aims to establish a concept for the systematic investigation of financial markets in general.

Urs Brügger ("Speculating") regards speculation as a practice on the global foreign exchange market. His chapter shows the complexity and multistage character of speculation work. It illustrates how traders attempt to obtain a "view" of the future by using several cultural schemes of interpretation and strategies, which in turn both allow and limit their actions at the same time.

Anna Hasselström ("Can't Buy Me Love") takes a different viewpoint. She is interested in the significance of face-to-face interaction and the co-dependence of brokers and traders. The fostering of friendship-like relationships after office hours is interpreted as a way of gathering information.

(4) Financial Markets and Economic Theory

Starting out from the observation that economic practices are embedded in economic theory, three chapters discuss different cases (portfolio management, price automation and valuation models) where theoretical knowledge interacts with the practical purposes at hand.

Donald MacKenzie ("Long-term Capital Management") investigates the influence of modern finance theory on the construction of financial products for derivative markets. Using the specific case of an investment house in which finance theorists were involved in developing a portfolio structure ("replicating portfolio"), the chapter demonstrates not only the importance of a systematic methodology for pricing, but also the underlying social mechanisms of self-validation.

Fabian Muniesa ("Performing Prices") analyses the installation of an electronic trading system at the Paris stock exchange. The purpose of the electronic system was to replace the fabrication of prices as it was previously achieved by the interaction of individual traders. The paper shows how knowledge about trading and financial markets on the one side, and market architecture based in neoclassical theory on the other side, are negotiated to make automatic price simulation perform.

Peter B. Hagglund ("The Value of Facts") evaluates the function of cash-flow models employed by security analysts to calculate the value of
a company. The paper shows that valuation models do not simply provide an *ex ante* existing company value. Rather, they create new facts that only as such can become important for the investor. The boundary of fact and fiction is shifted within communication between the analyst and institutional investors, and the joint creation of "quasi-companies" occurs.

References


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**Figuring trust: The social organization of credit relations**

**Andrea Mennicken**

"If this is true our rationalities will, as a matter of course, require risk-taking, and risk-taking will as far as others are involved, require trust. And again, if this is true, we are likely to enter sooner or later into the vicious circle of not risking trust, losing possibilities of rational action, losing confidence in the system, and so on being that much less prepared to risk trust at all."

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**1. Introduction**

Granting credit is always a risky enterprise. The time lapse between payment and repayment offers the possibility of making high profits, but also risks heavy losses, e.g. through fraud or bankruptcy. Banks cope with the long list of credit risks by using highly elaborate instruments of risk calculation and management. Index figures, financial audits, security analyses, and other accounting systems filter the noise of the banking environment and generate information about the risk position and creditworthiness of the debtors. Through processes of codification, quantification, and objectification they fabricate powerful economic facts which provide organizational selection patterns and decision frames, which help the banks transform the uncertainty about insolvency into a calculable and acceptable credit risk.

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\(^1\) Luhmann 1988a, 105.
Yearbook
Ökonomie und Gesellschaft

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ÖKONOMIE UND GESELLSCHAFT

Jahrbuch 16

Facts and figures
Economic representations and practices

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Contents

Editorial note ............................................................................................................. 7

Richard Rottenburg, Herbert Kalthoff, Hans-Jürgen Wagener
Introduction – In a search of a new bed: Economic representations and practices ................................................................. 9

Managing Uncertainty

Andrea Mennicken
Figuring trust: The social organization of credit relations ......................... 35

Herbert Kalthoff
The inventory of firms: How banks analyze risk in Central Europe .... 59

Trevor Pinch, Malcolm Ashmore and Michael Mulkay
Cost-benefit analysis in practice: Option appraisal in the UK National Health Service and the politics of rational decision-making ................................................................. 87

Figuring Out Facts

Barbara Czarniawska
Organizational translations: From worlds to words and numbers - and back ................................................................. 117

Richard Rottenburg
Accountability for development aid ................................................................. 143
Editorial note

It is hardly the rule to publish a yearbook devoted to economics that contains articles written entirely outside of the discipline. This is even more remarkable since the authors of this volume also do not adhere to what has become known as conventional economic sociology and economic anthropology. Therefore this publication transgresses all existing disciplinary boundaries and hence appears somewhat venturesome. The point of departure for this yearbook was an international conference on the topic of “Facts and Figures” held in Frankfurt (Oder) in December 1999, where anthropologists, sociologists, organization theorists and economists from France, Germany, Sweden, Switzerland, the United Kingdom and the United States met to discuss the relationship between economic practices and representations. A selection of the papers from this conference is presented here, supplemented by two additional papers. We would first of all like to thank all of the authors for their contributions and the editors of the “Yearbook Economy and Society” for publishing them. In particular, we wish to thank Dagmar von Bargen and Peter Weisse for their suggestions and for their patience while this volume was being brought into its final form. We also would like to thank the Frankfurt Institute for Transformation Studies at European University Viadrina for their financial support of the conference. Ulrike Niedner and Anke Tobien, both students at European University Viadrina, provided their committed support for the organization of the conference and the management of this volume. Finally, our thanks go to Rebecca van Dyck, who assisted us in eliminating all the errors non-native speakers can produce.

Frankfurt (Oder), June 2000

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