From original institutionalism to the economics of conventions and *Inventing Value*: An interview with Dave Elder-Vass

Dave Elder-Vass and Jamie Morgan[1]
[Loughborough University, UK; Leeds Beckett University Business School, UK]

Dave Elder-Vass is an Honorary Fellow of the School of Social Sciences and Humanities, Loughborough University. He is a well-known social theorist and author of four books, the third of which, *Profit and Gift in the Digital Economy*, brought his work to the attention of the Society for the Advancement of Socio-Economics (SASE).[2] His most recent book, *Inventing Value,* was recently awarded the Cheryl Frank Memorial Prize and provides a novel perspective on the contentious issue of how value is produced.[3] It takes as one of its points of departure the (mainly French) economics of conventions (*economie des conventions*) which in turn takes its inspiration partly from a novel reading of Keynes's work. The publication of the book provides an opportunity to discuss interesting and innovative work that may be unfamiliar to readers of *Real-World Economics Review* (see, however, contributions to Fullbrook (2002)) and to tentatively compare this to more familiar ones, notably original institutional economics (OIE).

Dave's work can be accessed at: https://eldervass.com

He is interviewed by Jamie Morgan for *RWER*.

Jamie: When a reader of *RWER* thinks of conventions they likely think of the various ways in which economics has over the years since the 1870s contested, modified or provided alternatives to the standard "neoclassical" economic agent: a calculative optimising entity, able to process infinite information instantaneously and without cost to achieve given ends (and able to do so within a system reduced to a utility function, a production function and an equilibrating mechanism, whose fundamental frame of reference is "the market" conceived as an environment of price signalling information processing under perfect information) – an ahistorical entity applicable anywhere and anytime – a bit of a mouthful, I know.

---

[1] Contact: D.Elder-Vass@lboro.ac.uk and j.a.morgan@leedsbeckett.ac.uk

[2] See Elder-Vass (2010, 2012, 2016, 2022a).

[3] Visit: https://www.criticalrealism.org/post/winner-cheryl-frank-memorial-prize-2023 Dave would like to acknowledge the generous financial support of the ISRF: https://www.isrf.org/fellows-projects/dave-elder-vass/

Note, for a recent and ongoing project exploring the influence of different groups in French economics see the work of Serge Benest, https://sbenest.eu/index.php/projects/

Dave: To a modern mainstream economist your summary of the neoclassical tradition may read like a caricature, but I think that conception remains the baseline for much of economics today. It is by *loosening* assumptions rather than dispensing with them that much of mainstream economics proceeds. Even when economists drop one or another of the assumptions, they often take the rest as read, as part of an unthought ground. As Steve Keen has pointed out mainstream teaching is still dominated by that sort of thinking (Keen 2011).[4]

Jamie: And conventions theory is different…

Dave: The central theme of the conventions tradition is that everything that occurs in the economy depends profoundly on socially influenced beliefs and normative commitments – influences that are largely ignored by the mainstream. Conventions theory departs both from the concept of the agent as a purely asocial individual and also from the idea that the systemic context is nothing more than a set of price signals. Having made that first step, to make sense of economic action, according to conventions theory, we then have to look at the ways in which people understand what they are doing and how that varies depending on the cultural context.

Jamie: Still, use of the term "conventions" evokes a whole host of related terms: beliefs, rules, regulations, laws, behaviours, routines, habits, practices etc. i.e., the many ways in which the grounds of economic activity might be *constructed* and thus vary. Few readers will be familiar with the French conventionalists but many will have some familiarity with the institutionalists…

Dave: It should already be clear from my very brief initial description of conventions theory that it has a great deal in common with institutionalism. From very early on, theorists saw conventions as providing an institutional framework for the economy (Jagd 2007). And at least some of the conventions theorists also acknowledge a relationship with institutionalism as a tradition. For example, the work of Ronald Coase, Oliver Williamson and J K Galbraith is discussed in Favereau (2019).

Jamie: These though, are on different sides of a divide in institutionalism between original (old) institutional economics (OIE) and new institutional economics (NIE). J K Galbraith is usually

[4] Note from Jamie: on the core aspects that are in various ways "loosened" see the classic paper by Arnsperger and Varoufakis (2006) and perhaps consult entries in *The New Palgrave Dictionary of Economics*, which now has a continually updating online version. The dictionary has been in existence in various guises for over a century. Entries are not definitions. They are mainly short state of the field essays that take the form of discussions and surveys of key concepts and many are written by prominent experts (who typically view an invitation to pen an entry as a matter of prestige). Visit: https://link.springer.com/referencework/10.1057/978-1-349-95121-5 This, in turn, raises issues regarding use of terms such as mainstream, orthodox and heterodox. According to Dequech, for example, mainstream simply means "that which is taught in the most prestigious universities and colleges, gets published in the most prestigious journals, receives funds from the most important research foundations and wins the most prestigious awards." (Dequech 2007: 281). There is, of course, a debate regarding use and misuse of the term neoclassical, and what it has come to mean in different contexts for different purposes, see essays in the edited text, Morgan (2016).

categorised as the former and the other two as the latter.[5] Geoff Hodgson is probably the best-known living proponent of OIE.[6]

Dave: As readers no doubt know, Geoff Hodgson has sought to refute the claim that OIE is "antitheoretical" and to provide his own clarification and systematisation of OIE, drawing on Veblen and others. On the theoretical side, most economists are familiar with the dominance of methodological individualism in the mainstream (which denies the influence of structural forces) and with the accusation that institutionalism tended to methodological holism (which ignores the influence of individual human agents). Among other things, Hodgson's institutionalist theory has argued for a reconciliation that recognises the influence of both agents and structures (e.g. note the subtitle to Hodgson 2004a). As such, it has various affinities and crossovers with the work of critical realists in economics, such as Tony Lawson, though there have also been various disputes with realists. For example, over the role of habit and the appropriateness of evolution as metaphor and concept, and over the nature of possible theorisations of the agent structure problem.[7] For those who don't know, I am a critical realist myself and much of my early work dealt with the question of structure and agency, with a special interest in causation, emergence and social construction (e.g. Elder-Vass 2010, 2012).

Without going into the finer distinctions between them, conventions theory seems closer to old than to new institutional economics. Certainly, conventions theory steps away quite radically from the standard neoclassical agent and sees institutions – in the form of conventions – as having a very strong influence. In one fascinating recent paper, leading representatives of conventions theory, the French regulation school, and the French anti-utilitarian tradition in anthropology came together to endorse what they called institutional political economy, and argued that "the differences between the various non-standard economics schools are much less important than what they have in common" (Boyer et al 2022).

With that in mind, I think it might be more productive to see institutionalism as a larger family of overlapping approaches rather than a binary pair, especially if we recognise that in addition to OIE and NIE, sociology is waiting in the wings with a whole bunch of other perspectives that might also be seen as institutionalist. What's fascinating to me as someone who has come through sociology is that the core themes of institutionalism are intensely sociological. Both OIE and NIE at times seem to reinvent the debates we find in sociological theories and some of the solutions developed there at least partly reproduce similar attempts at reconciliation of structure and agency in sociology (e.g. Archer 1995; Bourdieu 1990; Giddens 1984).

[5] Note from Jamie: one should also note Douglas North as among the best known NIE proponents. See Dequech (2015).

[6] Note from Jamie: Hodgson is founding editor of *Journal of Institutional Economics* (published since 2005), and a prime mover behind the European Association for Evolutionary Political Economy (EAEPE, founded 1989) and the World Interdisciplinary Network for Institutional Research (WINIR, launched 2013). He recently published *Is There a Future for Heterodox Economics?* (Hodgson 2019), a book that created some controversy (see Chester and Jo 2022), and also led to a symposium in *Journal of Economic Issues,* https://www.tandfonline.com/toc/mjei20/55/3

[7] See, for example, Hodgson's essay in *Ontology and Economics* and Lawson's reply (Fullbrook 2009); Chapter 5, "An Evolutionary Economics? On borrowing from evolutionary biology" and Chapter 8, "Institutional Economics and Realist Social Theorising," in Lawson (2003). See also Hodgson (1999; 2004b); Collier (1999). On institutions see also Elder-Vass (2008); Fleetwood (2008a, 2008b).

Jamie: I take your point, though I guess the obvious response is that "intensely sociological" takes as its point of departure exactly the disciplinary demarcations that OIE in particular and, I take it, conventions theory, would contest (and "reinvent" does imply chronological priority which I guess is something else that is arguable). In any case, before moving on it might be worth for the purposes of comparison just briefly itemising Hodgson's summary of the characteristics of the institutional approach, which he suggested, twenty five years ago, distinguishes it from the then mainstream and makes it a candidate for a future mainstream (Hodgson 1998: 173-174):

1. An emphasis on institutional and cultural factors not found in the mainstream.
2. An open interdisciplinarity that recognises insights from politics, sociology, psychology and other social sciences.
3. No recourse to the rational utility maximising agent. Institutionalism emphasises the prevalence of habit but also the perpetual potential for novelty.
4. Mathematics and statistical analysis as servant rather than essence of economic theory.
5. Inquiry starts from stylised facts and conjectures concerning causal mechanisms rather than mathematical models.
6. Extensive use is made of historical and contemporary comparative empirical material concerning socio-economic institutions.

Clearly, much of this is shared within heterodox economics and is found elsewhere rather than just in Hodgson's work…[8]

Dave: On that basis, I think we can welcome the conventions tradition to the family!

Jamie: In any case, we still haven't said much about conventions theory so we should start to turn more explicitly to that. Who would you say have been the most prominent of the conventions theorists?

Dave: Over the years prominent figures associated with the tradition include Alain Desrosières, Francois Eymard-Duvernay, Olivier Favereau, André Orléan, Robert Salais and Laurent Thévenot. But perhaps it would help to say a little about where conventions theory first came from. It originated in the 1980s when a group of French economic statisticians, partly under the influence of the sociologist and anthropologist Pierre Bourdieu (so interdisciplinarity was baked in from the start), became critical of some of the positivist assumptions of traditional statistics (Desrosières 2011). Statistics were widely seen as objective neutral reflections of self-evident facts about the world. The conventions theorists, however, recognized that statistics reflected judgements about what should count and thus what should be counted, judgements about how to count, and in particular judgements about how to classify (or "qualify") the things being counted. Once statistics had been produced in a particular way, this tended to embed and be perpetuated. Judgements were repeatedly re-used in further work and became stabilised as

[8] Note from Jamie: also, institutionalism already had the Association for Evolutionary Economics (AFEE, founded in 1965) and the *Journal of Economic Issues* (published since 1967). Ann Mayhew, former editor of the journal has, like Geoff, published quite a bit in RWER. Bill Waller, current editor of *Journal of Economic Issues*, has closer affinities to Cambridge Social Ontology and another well-known contemporary institutionalist, Mary Wrenn is a former Joan Robinson Research Fellow in Cambridge (see e.g. Wrenn and Waller 2021)

taken for granted assumptions. The conventions theorists took the essentially social constructionist view that these assumptions represented somewhat arbitrary choices, yet once made they became stabilised by social use, but those choices could have been made differently (Diaz-Bone and de Larquier 2020: 5–6). This core concept of conventions then came to be extended and applied in different contexts beyond statistics.

Jamie: As I briefly mentioned in the introduction one of the main sources of the conventions concept was John Maynard Keynes…

Dave: That's right. Conventions theorists typically focus on just one small part of *The General Theory of Employment Interest and Money,* found in Chapter 12, "The state of long-term expectation", notably §IV:

> In practice we have tacitly agreed, as a rule, to fall back on what is, in truth, a *convention.* The essence of this convention – though it does not, of course, work out quite so simply – 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. We know from extensive experience that this is most unlikely… (Keynes 1936: 152)

Jamie: Chapter 12 follows on from the chapter on marginal efficiency of capital, the scale of investment, uncertainty and the rate of interest etc. Your quote continues:

> The actual results of an investment over a long term of years seldom agree with the initial expectation. Nor can we rationalise our behaviour by arguing that to a man in a state of ignorance errors in either direction are equally probable, so that there remains a mean actuarial expectation based on equi-probabilities. For it can easily be shown that the assumption of arithmetically equal probabilities based on a state of ignorance leads to absurdities. We are assuming, in effect, that the existing market valuation is uniquely *correct* in relation to our existing knowledge of the facts which will influence the yield of the investment, and that it will only change in proportion to changes in this knowledge; though philosophically speaking, it cannot be uniquely correct, since our existing knowledge does not provide a sufficient basis for a calculated mathematical expectation. In point of fact, all sorts of consideration enter into the market valuation which are in no way relevant to the prospective yield.
>
> Nevertheless, the above conventional method of calculation will be compatible with a considerable measure of continuity and stability in our affairs, *so long as we can rely on the maintenance of the convention.* (Keynes 1936: 152)

The quote seems to be doing several things. It highlights that convention is a response to limitations of knowledge of, and uncertainty in, the world, that convention provides a basis for practice, and that one major focus of concern is valuation of assets.

Dave: Yes, Keynes wanted to explain how investors assess the value of financial assets under conditions of "extreme precariousness" of any knowledge of future income flows from them. As the previous quote suggests, his answer was that they fall back on "what is, in truth, a convention" – the assumption that affairs will continue much as they are at the moment. Keynes's well-known "beauty contest" model of valuation can also be regarded as a convention, although he didn't call it one himself in *The General Theory.* This is the practice of valuing financial assets on the basis of how much we think other investors will think an asset is worth:

> [P]rofessional investment may be likened to those newspaper competitions 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; so that each competitor has to pick, not those faces which he himself finds prettiest, but those he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view… [Ultimately] We have reached the third degree where we devote our intelligence to anticipating what average opinion expects the average opinion to be… (Keynes 1936: 156).

Jamie: Still, while conventions theorists often quote these passages, they tend also to highlight that their use of Keynes is atypical…[9] As I understand it, conventions theorists discuss Keynes in various contexts – some highlight that disciplinary knowledge (essentially the sociology of knowledge) is itself conventional and so economics writ large is a domain of "convention", some argue that Keynes borrowed aspects of former economics in order to convey his general theory in a format that would be acceptable (so his use of equilibrium etc. is an example – in part – of following convention despite his many criticisms of economic theory and his many innovations)….[10]

Dave: While this is true it is also important to emphasise that the use conventions theorists make of Keynes to address particular problems has been creative, combining it with other sources of inspiration to develop their own concepts. For example, Andre Orléan has developed a conventions-based approach to financial markets, where he stresses the central role of what he calls *mimesis* – the way in which investors copy each other's investing practices (Orléan 2014). He draws not only on Keynes for this but also on René Girard, who sees mimesis as a fundamental psychological tendency, and on (original institutionalist) Thorstein Veblen's exposé in *The Theory of the Leisure Class* of attempts to demonstrate social status by mimicking consumption habits marked as prestigious.

Jamie: Presumably there are other influences…

[9] Note from Jamie: this is a matter of degree. Joan Robinson and various others place great emphasis on the general significance of the claim that the outcome of investment does not agree with the expectation and that real historic time is a matter of process that implies some degree of construction as part of open ended consequences. In the case of theory of the firm, for example: "To move from one point to another we would have to rewrite past history or to embark upon a long [period] future. In dynamic conditions, changes in the composition of demand, changes in technique, and changes in costs of specific factors of production are continuously going on. Investments are always made in less than perfect knowledge of present possibilities and less than perfect confidence in expectations about the future. The stock of capital in existence today is not that which would have been chosen if the future, that is now today, had been correctly foreseen in the past" (Robinson 1971: 104).

[10] Note from Jamie: the issue of the role of equilibrium in Keynes's work is another that has attracted attention from various sources.

Dave: I mentioned the influence of Pierre Bourdieu previously and while conventions theorists do not often mention Pierre Bourdieu, Orléan's argument is very "Bourdieusian". There are others. Olivier Favereau, for example, has pointed to the influence of the social theorist Michel Foucault (governance, power etc.), as well as to philosophical work on hermeneutics and by American pragmatists such as Richard Rorty (Favereau 2019: 27). The main common philosophical inspiration, though, and the second widely quoted source on conventions, is the work of David Lewis.

Jamie: This is David Lewis, author of *Counterfactuals* (Lewis 1973), and perhaps best known for philosophy of "possible worlds" (see also Lewis 1986)?[11]

Dave: That's right, though the main source here is *Convention: A Philosophical Study* (Lewis 1969). Lewis was interested in cases where there were multiple different ways of doing something, and no obvious reason to prefer one over another, but benefits arising from everyone doing it the same way. The paradigm case was the development of language, and Lewis sought to show that this could occur without the pre-existence of language itself through imitation and conformity with precedents (Diaz-Bone and de Larquier 2020: 8–9). So, for example, it is quite arbitrary what sound pattern we use to represent any given concept, but language only works if all the members of a given group use a recognisably similar pattern for the same concept. Lewis offered the concept of a convention to describe how this could be achieved.

Jamie: Though to be clear, no less than in the case of Keynes, conventions theorists critique and creatively use Lewis. The book is philosophically quite formalist and according to critics Lewis adopts a behaviourist approach (focussed on external or observable action). His book opens with 11 "coordination problems" in which the development of a convention eventually solves the problem of coordination and as Favereau notes, 9 of these "coordination problems" refer to simple everyday problems whereas the other two (money and language) are different and don't easily follow a behaviourist format… which is one reason why Lewis later abandoned his work on conventions.

Dave: Yes, the examples of money and language brought to the fore that some conventions are not solely about actions, but also beliefs. A convention exists, according to Lewis, when everyone conforms to a particular way of doing something, everyone expects everyone else to do so, and everyone prefers everyone else to continue doing so, even though it would be possible for there to be an alternative way to achieve the same outcome, but only if everyone adopted it (Lewis 1969: 76). For Lewis, as soon as one group settles on a certain convention, it makes sense for others to conform too, and for the whole group to keep the convention in place. Because the convention co-ordinates activity successfully, there is no need for meta-communication, for example about what convention to choose, to achieve this outcome.

Jamie: You might want to just explain here what you mean by "meta-communication" and since conventions theorists have moved on from the more "behaviourist" version of Lewis, you might want to explain what behaviourism is and also the importance of belief to convention….

[11] Stanford Encyclopaedia of Philosophy is probably the best first port of call source for issues and prominent people in philosophy. See: https://plato.stanford.edu/entries/possible-worlds/

Dave: By meta-communication I mean communication about the basis of communication and co-ordination. For example, if we all grew up in a society where we greeted our friends by kissing them on the cheek, there would be no need to communicate about how to greet a friend, but as soon as we mix with people from another society who greet friends in a different way, then the situation becomes potentially problematic and we have to start talking about it with each other. Lewis's version of conventions doesn't require any of that sort of communication because the conventions are taken to be universal. Children born into that kind of society don't even need to have conventions explained to them – they can just observe them and imitate them. By assuming that kind of context, Lewis can be behaviourist about conventions, meaning that we can explain the behaviour simply by observing it, and indeed the participants can adopt it simply on the basis of observing it. He thought he needed that kind of model because he was trying to explain language without presuming the prior existence of language… but once we do have language we can form complex ideas and those start to become important to our motivations. I would argue, for example, that we conform with conventions (and other norms – perhaps we can come back to that) partly because we believe that we are expected to and that if we don't we will suffer adverse consequences. So, to explain conventional behaviour in contemporary society we need to look into the systems of beliefs that underpin it.

Jamie: Something behaviourism would struggle with (as Lewis came to realise). To clarify then, conventions theorists take from Lewis that a convention is a "kind of rule with four distinctive features: [it is] implicit (no canonical expression), arbitrary (multiple alternatives), of unknown origin, and not legally enforced" (Favereau 2019: 35), but conventions theorists also reject behaviourism. Since we mentioned him earlier, it might be worth quoting Geoff Hodgson on institutions and conventions to highlight any similarity. Hodgson refers to conventions as a type of institution:

> [W]e may define *institutions* as systems of established and prevalent social rules that structure social interactions. Language, money, law, systems of weights and measures, table manners and firms (and other organizations) are thus all institutions… [W]e may usefully define a convention as a particular instance of an institutional rule. For example, all countries have traffic rules, but it is a matter of (arbitrary) convention whether the rule is to drive on the left or on the right. So in regard to the (say) British institutional system of traffic rules, the specific convention is to drive on the left (Hodgson 2006: 2).[12]

Dave: This is obviously a coordination problem and Hodgson emphasises its arbitrary nature.[13] Similarly, if we refer back to Keynes, both of Keynes's conventions consist in many investors sharing a set of beliefs about how to make decisions in a situation where there is no rational basis for making an optimal decision. In both of Keynes's examples conventions help to bring a kind of order to financial markets.

Jamie: And, again, just to be clear, conventions theorists found this way of thinking helpful first in studying the production of statistics…

[12] Note from Jamie: on conventions and their use see also Dequech (2012a, 2017). For a different approach see social positioning theory (Lawson 2019).

[13] Note from Dave: though clearly the issue of "not legally enforced" is a divergence.

Dave: It's not hard to see how Lewis's work, suitably modified, might apply to the case of statistics. Once one statistician has calculated national income in a particular way, for example, then it makes sense for others to do the same, so that comparable figures can be obtained over time and for cross-national comparisons, even though other ways of calculating national income might be equally (or even more) useful. Of course, statisticians do engage in meta-communication, but they do also establish conventions about how to measure things, and the meta-communication is largely about whether to prefer one possible convention over another. Something like Lewis's model of convention, in other words, can still apply even when people do communicate with each other about their practices.

Jamie: One might also note that there is a more complicated history to the measurement of "national income". For example, there is a history to the development of GDP (see Masood 2016) and numerous disputes regarding the significance of measures of GDP, especially in development economics (e.g. Ghosh and Morgan 2022) and in terms of consequences for climate and environment (McNeill 2001; Moore 2015).

Dave: That being said, the example I gave was illustrative rather than actual. The earliest applications of the concept in the economics of conventions tradition were to labour markets, and more specifically to the question of how people are classified into socio-professional categories, initially for statistical purposes (Jagd 2007: 76). Conventions theorists have adopted the term "qualification" to refer to this kind of categorisation process, and soon started to apply it more widely, notably to the ways in which we classify goods for sale. Mainstream economics tends to ignore such processes, or take them for granted, but the conventions theorists showed that they are fundamental to the mainstream conception of a market. That conception rests on the assumption that a certain set of goods is equivalent and thus freely substitutable. The conventions theorists point out that equivalence between any two items is not an objective matter, but rather depends on us following what Desrosières calls conventions of equivalence that we use to assess what is equivalent and what is not (Diaz-Bone 2017: 242).

Jamie: And this is important because….

Dave: For anything like the mainstream conception of a market to exist, participants in it would have to share such a convention about what counts as an example of the good exchanged in the market.

Jamie: This seems like an approach that lends itself to anthropological and sociological research…

Dave: Yes and no. One focus has been to look at disputes between economic actors, on the grounds that this can help to reveal the conventions that they are employing and arguing for (Jagd 2007). Clearly, that sort of focus is amenable to empirical sociological research, but proponents of conventions theory have not always used typical sociological methods. More importantly, despite the origins of the core concept in philosophy (Lewis) and economics (Keynes), conventions theory is a far more sociological approach to making sense of how the economy operates than we find in mainstream economics.

Jamie: Just to be clear though, conventions theorists can be found across the social sciences…

Dave: Indeed. For example, the tradition has also developed an important presence in sociology. Here the key work has been Boltanski and Thevenot's book *On Justification* (Boltanski and Thévenot 2006, published in French in 1991). This applies a version of the conventions approach to the issue of how people make judgements and resolve disagreements in social disputes. Boltanski and Thevenot suggest that we make judgements by applying what they call "orders of worth". An order of worth is a set of normative standards organized around a central principle, and different orders of worth (or "worlds" or "cities") apply in different contexts, with many disagreements hinging on which order of worth should be applied to a specific case.

Jamie: And, to reiterate, like any other approach conventions theory exhibits dispute and diversity...

Dave: That's right, and as a result the concept of a convention has been used in a variety of rather different ways in the tradition, making it difficult to provide a clear and unambiguous definition. Diaz-Bone and de Larquier, in the introduction to their *Handbook of Economics and Sociology of Conventions* (still under construction), describe them as "institutional logics for the valuation or valorization of goods, actions, and persons" (Diaz-Bone and de Larquier 2020: 1–2). That has the merit of being loose enough to accommodate the full range of cases, but at the inevitable cost of leaving it rather unclear what would count as a convention.

Jamie: Still, before moving on to discuss your recent book *Inventing Value* and how it relates to conventions theory, it might be worth here just summarising what conventions theory "is"…

Dave: Well, I can't guarantee to be any more definitive than Diaz-Bone and de Larquier, but perhaps I can give a definition that complements theirs: conventions theory is a trans-disciplinary tradition that focuses on how stabilised shared understandings shape our classification, evaluation, and valuation practices and as a result influence our social interactions, including our economic interactions. In a sense it therefore provides a more socialised and realistic alternative to the mainstream view of decision-making as purely a process of the rational calculation of self-interest. So, for the statisticians for example, shared understandings of different classes of labour are employed to generate labour statistics. Or for Boltanski and Thevenot, shared understandings of standards of judgement are used to resolve social disputes. Or for André Orléan, shared understandings of how we should value financial assets, like Keynes's conventions, shape outcomes in financial markets, which I hope we can discuss in more depth shortly. From a critical realist perspective, I would want to extend the argument a little further: we should see decision-making as multiply determined by many different causal mechanisms, so that a fully realistic account of it would take into account both conventions and rational calculation, but also other factors, such as the habits or dispositions we take for granted (as stressed by some institutionalists) and our emotional commitments.

Jamie: And just before we turn to valuing financial assets it might also be worth situating conventions theory to heterodox economics, assuming that this is where one might categorise it… You've already suggested that it might comfortably be described as "institutional", but given it also draws on Keynes, would any of its proponents describe themselves as Keynesian, Post Keynesian etc…[14]

Dave: On the whole, the conventions theorists don't take much interest in the parts of Keynes's work that might be more familiar to your readers, because they aren't as focused on macroeconomic questions like the levels of unemployment, national income or interest rates as Keynes and most Keynesians. So it would be more accurate to describe them as "influenced by Keynes" rather than as "Keynesian" in the usual sense of the term. I suppose in a strict sense that automatically makes them post-Keynesian, but again their focus is less macroeconomic than the work that usually goes under that label, and less shaped by dialogue with earlier debates within the discipline of economics.

Jamie: OK, turning to your recent book. Given that conventions theory tends to be associated with American pragmatism and there is a significant strand that one might describe as social constructivist, it might seem odd that a critical realist has taken an interest in it….

Dave: I think it's important to recognise that different academic traditions are not mutually exclusive but instead often overlap significantly in the ideas they employ. That doesn't just apply to critical realism and conventions theory but also to critical realism and both pragmatism and social constructionism. Pragmatism and critical realism, for example, share quite a few core beliefs, such as fallibilism and the idea that the self is fundamentally social (Elder-Vass 2022b). Critical realists have sometimes drawn on pragmatist work, including Margaret Archer, the leading critical realist sociologist. Archer drew explicitly on the work of the classic pragmatist George Herbert Mead in her work on the reflexivity of human agents (Archer 2003). This social understanding of the individual is explicitly opposed to the neoclassical notion of *homo economicus*.

Similarly, critical realism is implicitly social constructionist, in the sense that it sees many social phenomena as depending on what we, collectively, think about them. A banknote is only money, for example, because we collectively accept that it can be used as a means of payment. If we stop accepting that, then the banknote continues to exist as a physical piece of paper but it ceases to be money.

Jamie: Or at least ceases to be a carrier of the set of powers that money has…[15]

Dave: Money, in other words, is socially constructed. But both I and other critical realists have distinguished between moderate and radical forms of social constructionism, and argued that critical realism is compatible with moderate forms, but is in conflict with more radical forms (Elder-Vass 2012). It was the radical variant that led postmodernists, for example, to deny our capacity to know anything about the material world, even that it exists! But we can reject that variant while recognising that some things – social things, in particular – do depend on what humans believe about them. Once you recognise these kinds of overlap between traditions of

[14] Note from Jamie: typically distinguished from mainstream appropriation of Keynes by an emphasis on dynamics, historical time, uncertainty, effective demand and the role of diverse demand for money. See, for example, Dequech (2012b).

[15] Note from Jamie: accepting that there are longstanding debates about the nature of money and these remain unresolved… See, for example, Peacock (2013).

thought, you can be much more open to the possibilities of finding synergies with ideas that grew out of other traditions.

Jamie: When you first became interested in the subject of value, valuation and pricing was it immediately obvious that your work and conventions theory overlapped?

Dave: No, it took me a while to realise (or perhaps *decide*?) that the work I was doing on value fell within the conventions tradition as well as the critical realist one. It had struck me that the concept of value, in the sense of the monetary value of assets and commodities, was central to the operation of our contemporary economy and yet it had almost disappeared from view, in the shadow of two enormously powerful misconceptions of value and its origins: the neoclassical sense of value as the equilibrium price of a good and the Marxist sense of value as a quantity of socially necessary labour power. I recognised that we only buy things because we ascribe value to them, and hence the commodity and asset economies depend utterly on the processes through which buyers (but also sellers) come to ascribe and quantify monetary value. But the Marxist analysis ignores that, and the neoclassical analysis collapses the whole question of the prices people are willing to pay to the exogenous preferences of buyers, thereby ignoring many of the most important factors that shape what prices people are willing to pay for things.

Jamie: Well, I imagine that Marxists at least would want to contest the way you represent Marxist theory of value and what it ignores (see, for example, Fine and Saad-Filho 2018), but it probably makes sense to start with what is in your book rather than what isn't. In brief then, what do you argue?

Dave: In the book *Inventing Value* (Elder-Vass 2022a) I argue that people apply what I originally called *lay theories of value* to help them determine the prices they are willing to exchange at. These are guidelines, often very simple ones, about what makes a price fair and/or reasonable. For example, we generally feel that if something is damaged, its price should be lower, or that if it cost more to produce the price should be higher. Not all lay theories of value are so simple. For a while, for example, traders of financial options appear to have believed that options should be priced in accordance with the Black-Scholes formula (MacKenzie 2006).

Jamie: In standard form, a European call option version of Black-Scholes is stated as:

$$C_0 = S_0 N(d_1) - X_e^{-rT} N(d_2)$$

This is a calculation of the (probability adjusted) stock price minus the (probability adjusted) call option price. Put simply, if the S side of the equation is larger than the X side, then the call option is valuable (the exercise price of the derivative is less than the stock price)…[16] This is quite technical, and at first sight precise, this is "lay" in the sense of…

Dave: It is "lay" in the sense that it is employed in practical valuations, rather than only being an academic theory that seeks to describe the world. The economic sociologist Donald MacKenzie famously used it as an example of the "performativity" of economics, since the

[16]For a full explanation visit: https://www.khanacademy.org/economics-finance-domain/core-finance/derivative-securities#put-call-options

original formula was quite inaccurate as a description of option pricing practices, but then it was adopted by derivatives traders and for a number of years the formula did accurately describe what they did – because they were using it! After a while they moved on to using other lay theories (though many of them were loosely based on the Black-Scholes formula) and the original formula also ceased to work as a description of their practice as a result (MacKenzie 2006). This is an unusual case, though, in the sense that relatively few lay theories of value – the vast range of theories that people actually employ in their valuation decisions – are derived directly from academic theories. I realised after a while that these lay theories of value were quite a similar thing to *valuation conventions*, which have occasionally been employed in the conventions tradition, which is when I started connecting my work with theirs.

Jamie: So, your approach begins from "lay theories of value", what people think they should pay contributes to the determination of what they do pay…. Value as valuation… No doubt you are aware of many relevant considerations that might immediately occur to a reader of *RWER*: systems of production and the formulation of relative prices, the difference (if any) between pricing and value, and so on, but perhaps we can come back to those shortly. It's not yet entirely clear what the similarities and differences are between your argument and conventions theory…

Dave: Well, there are certainly differences between lay theories of value and some of the iconic ways in which conventions theory has been applied. I'm most familiar with Boltanski and Thevenot's version, where conventions appear in the form of "orders of worth", each of which is an ethical principle from which a set of related social norms derives, and where judgements are negotiated by discussing and agreeing which one of these conventions should apply to a case. By contrast, my lay theories of value are much more fine-grained, more like individual norms than wide-ranging principles. And when judgements of price are made, we may well balance multiple different theories. Let's say an item is damaged but rare, for example – we need not price it on the basis of only one of these factors but rather we can take both into account. This is the sort of trade off we would expect to see in any process of settling on a price, whether in the context of a negotiation, an auction, or even price-setting in a fixed price context and the buyer's subsequent decision whether or not to purchase at this price.

Jamie: Just to be clear, would I be correct in suggesting your focus is on the effect that conventions (or at least "lay theories" propagated by those in a position to do so) have, insofar as they influence what people think something is worth, which in turn, affects the price they are prepared to pay for any given thing? A position that implies an absence of a systematically determined value to which prices converge or around which prices vary… but which somehow also differs from mere given preferences of a rational calculative agent engaged in a standard price signalling process…[17]

Dave: Yes, exactly. I certainly don't deny that there are systemic *influences* on prices, but for most goods there is not a single market price that all goods of the type concerned exchange at – and we all know that! Otherwise, for example, why would we go looking for the best deal on something we want to buy, or spend time evaluating what a fair price might be for something? So the opinions we form about what something is worth *matter* in the sense that they influence what we are prepared to pay. One contrast with the model of the rational calculative agent is that in making those assessments we don't just consider our personal preferences but also

[17] For a different approach to this see Fullbrook (2019).

normative social standards about how to value the things we are interested in buying. We don't just consider how much we want something but also, for example, how much it would be fair and reasonable to pay for it.

Jamie: It might be worth taking a step back here and explaining what a norm is and whether it differs from a convention…

Dave: Norms are guidelines for behaviour that we tend to follow because we believe we are expected to. Those expectations arise from our prior experience of normative pressures, which leads us to believe that we face a system of rewards and sanctions depending on whether or not we conform to the norm. For example, in the workplace we are expected to cooperate with our fellow workers. If we don't conform with this norm we are likely to face a variety of sanctioning behaviour, from relatively subtle forms like our colleagues ignoring us or excluding us from social conversations, through to more serious sanctions such as our managers denying us promotion or even dismissal. Once we have experienced those sorts of pressures (either directly, or by observation, or by hearsay) we tend to discipline ourselves to avoid the discomfort and pain of future sanctions. In other words, normative sanctions create an environment where we tend to observe the norms. This is something I've discussed at length in my books on social structure (Elder-Vass 2010) and social construction (Elder-Vass 2012).

Given that background, we can think about how norms relate to conventions. I take the view that all conventions are norms, because they are established and supported in the way I've just described – by learning from interaction with others what sorts of standards of value are considered reasonable or acceptable. Those processes are not particularly prominent in the traditions that conventions theory draws on, which are focused on the coordination functions of conventions – their effects rather than their causes - and perhaps have been neglected in conventions theory as a result. But some conventions theorists have explicitly acknowledged the normativity of conventions (e.g. Favereau 2008; Al-Amoudi and Latsis 2014). On the other hand, perhaps not all norms are conventions in the sense adopted by this tradition. Still, the recognition that conventions are normative led me to conclude that my lay theories of value had enough in common with at least some of the existing formulations of conventions that I could call them *valuation conventions* and draw on conventions theory as I developed my argument.

Jamie: As I understand it, your main applied focus in the book is the valuation of financial assets…

Dave: That's right. The applied chapters in my book are focused on financial markets, and I develop three extended examples with a chapter each: shares in the businesses promoted by venture capitalists, Bitcoin, and the subprime mortgage backed structured securities at the heart of the 2008 global financial crisis. Let's just look at the first one here, using the case of Snap, the social media company behind the Snapchat app, which was floated in an Initial Public Offering in 2017. In 2016, the last year for which figures were available at the time, Snap had revenues of just over $400 million and made a net loss of just over $500 million. Its prospectus said that "[we] expect to incur operating losses in the future, and may never achieve or maintain profitability... We have a short operating history and a new business model, which makes it difficult to evaluate our prospects and future financial results and increases the risk that we will not be successful" (Snap Inc. 2017: 6). At the end of the first day of trading the company's share capital was valued at over $28 billion. How was this possible? Part of the story is that the company's founders, the venture capitalists who had taken a share in it, and the investment banks underwriting the launch had all pushed narratives designed to connect Snap to a specific interpretation of a rather loose valuation convention. The convention, known as *relative valuation*, is that new companies can be valued by comparison with similar existing companies. Snap's "value entrepreneurs" argued that Snap was comparable to Facebook and so should be valued on the assumption that it would be able to raise as much revenue per user as Facebook. The plausibility of this narrative was based primarily on the prestige of its backers and in particular on the symbolic power of the investment banks underwriting the IPO, indeed this is one of two key reasons why venture capitalists in the U.S. consistently use a very small group of high status banks to run their IPOs.

The other reason is that underwriters play a leading role in assembling what I call an asset circle for the stock. All financial assets depend on having an asset circle: a group of investors that are open to buying and/or holding the asset, subject to its current price. This might sound odd to a mainstream economist since the standard model assumes that every economic agent is aware of and potentially open to acting in every market and indeed has full information about every market. This aspect of the standard model is patently false, but like so many other problems with the model this is widely assumed to be unimportant. Instead, I look at what is involved in overcoming one aspect of this problem in practice, and what is involved is that value entrepreneurs actively recruit potential investors into the asset circles for the assets they wish to promote. The process of underwriters approaching institutional investors prior to an IPO is one of the more obvious examples of this process (I give several more in the book). Again, their reputation is fundamental to the possibility of success but so is their network of deep connections with these investors.

Jamie: And is this then, an attempt to replace neoclassical price theory with a theory of price as determined by conventions?

Dave: I'm certainly trying to take price theory beyond neoclassical models, and to do so without following the typical mainstream theory approach of just loosening some assumptions, but I don't suggest that price is determined *only* by conventions. The prices paid in exchange transactions are actual events in an open system. As the leading critical realist economist Tony Lawson has repeatedly stressed, economic systems are open systems in the sense that we can't reduce the explanation of economic events to just a few factors that interact in a convenient model (Lawson 2003). Instead we have to recognise that every event is caused by a different complex of multiple interacting causal mechanisms, and we can never be sure in advance of investigation exactly what mix of mechanisms might influence any particular event. That takes us beyond neoclassical models in at least two respects: first, neoclassical models and variations don't seem to be even trying to explain prices as actual events, but rather as some sort of idealised abstraction of a price in a closed model that implies the same price ought to be paid in all transactions in a given market at a given time. Once you step away from the idea of prices as equilibrium phenomena, you have to give up the notion that there is necessarily one price that applies right across a whole market and start to treat the price paid in each individual transaction as a separate phenomenon with its own unique causal explanation. The explanatory challenge, then, is to identify the classes of causal mechanism that generally interact to produce individual pricing outcomes. There's a sense in which neoclassical models do that, but they limit the mechanisms at work, loosely speaking to consumption functions and production functions and their interaction to produce a hypothetical equilibrium price.

Jamie: And just to be clear are you equating pricing with value insofar as pricing is a process of valuation? Price and value are not distinct concepts?

Dave: Pricing and valuation are intimately intertwined, but I do think that price and value are distinct concepts. Price is used to refer to multiple different things. I tend to use it to refer to a property of an exchange transaction: the monetary amount that is actually transferred or promised as part of the exchange agreement, or to put it more simply, the realised price. That's what I think theories of price should be oriented to explaining. But in everyday life we also use the term to refer to the monetary amount that is being asked for in exchange for an as-yet-unsold item – for example the amount shown on a price ticket or label. Price tickets operate in conjunction with a valuation convention: that the price shown on the ticket is the price that should be paid for an item. That convention, though, operates differently in different contexts, and it is rarely quite as inviolable as it might seem. It is, incidentally, one of the many reasons that prices don't converge on system-wide equilibria. Shoppers in one supermarket, for example, will frequently pay a higher price than those in another do for the same good, and one part of the reason for that is that the two shops have different prices on the tickets and shoppers believe that if they want to buy the item in that shop they have to pay the price on the ticket. Of course, the full set of causal mechanisms is much more complex, but it should be clear that ticket prices operate in conjunction with a valuation convention and that between the two they have a major influence on the actually realised price in cases like these. Stepping back a little, we can think of this as another example of the complexity of the valuation processes that contributes to the determination of realised prices. Value also appears in that process, but in a third guise: as subjective views of the price that should be paid, which enter into buying, selling, and pricing decisions.

In any case, I argue that *some* of the causal mechanisms that have historically been squeezed into the neoclassical framework are indeed relevant to pricing outcomes. Firms, for example, do sometimes withdraw from supplying a certain product when they cannot cover their costs of production, and consumers do sometimes switch from one product to another – or from one supermarket to another for the same product – when their relative prices change. But that doesn't mean that we can reduce the explanation of prices to the intersection of demand and supply curves. Rather, it means that we have to understand price as the outcome of a much more complex interaction that may include factors like those but also includes factors like the conventions that economic actors bring to bear in determining what prices they are willing to pay or accept.

Jamie: Though one might put this slightly differently and suggest that there are various pricing conventions from the point of view of the practices firms adopt in relation to costs, in order to set prices for market purposes and from which other economic actors can then make decisions regarding what they are willing to pay. Not all post Keynesian theory is macroeconomic along the lines you referred to previously. Fred Lee, for example, rejects the neoclassical theory of pricing and explores the evidence provided for three "pricing doctrines": normal or full-cost pricing, administered pricing and mark-up pricing (Lee 1999; Lavoie 2016).[18] For Lee, changes in quantity were (empirically) a more important information source than price.

[18] Note from Jamie: see Sraffa (1926) for an early well-known critique, which among other things inspired Joan Robinson's work on imperfect competition (before she decided to focus on other things).

Dave: The strength of Lee's approach is that, like the argument I am developing, it is focused on how prices are determined in the real world. I suggest that we can see strategies like full-cost pricing or mark-up pricing as valuation conventions. Clearly these conventions are producer oriented and help to ensure that prices usually cover the costs of producing the goods concerned, which is essential if production in commodity systems is to be sustained over the long term. But there is a multitude of cases where these conventions don't hold. As I said in one paper, "Stable cost plus pricing may be the norm for manufacturing producers, but it is not for financial assets, auctions, large retail businesses with strong competitors, stock clearance, products made to fulfil one-off negotiated orders, automated pricing on sites like amazon.com, state-regulated prices, fine art showrooms, or prices subsidised as loss leaders, for example" (Elder-Vass 2019: 1490). In these other institutional contexts other conventions come into play, on both the supplier and buyer sides, and the dynamics that affect pricing outcomes vary. The way causal factors interact to influence pricing outcomes differs, for example, between a traditional town marketplace, on eBay, and on the New York Stock Exchange, because those institutional contexts make a difference.

Jamie: And situations like the recent "energy price shock" and the massive profits of oil and power companies can be accommodated here?

Dave: Yes, different mechanisms have different degrees of influence in different cases, and in that case we saw a fascinating interaction between the effect of supply shortages, which energy suppliers were able to exploit to raise prices, and government intervention in various forms. Arguably both of those were linked to conventions: perhaps "charge what the market will bear" on the supplier side, and "prices should be set at a level that ensures people have access to necessities" on the government side. But the key question here is what power these different players have to make their preferred conventions count. That is always an issue in price determination, but it's expressed particularly clearly in this case, and helps to remind us that price determination is always the outcome of many interacting forces.

Jamie: As, I guess, is inflation if we take Isabella Weber's argument.[19] And presumably the interaction involves an agent structure approach that rejects both methodological individualism and methodological holism (if we refer back to where we began with discussion of institutionalism)?

Dave: Absolutely, and that's also very much in line with critical realism, for example, Margaret Archer's argument that all social events are caused by a mixture of individual, social and cultural factors (Archer 1995). Critical realists argue that both individual human beings and also social structures have a causal influence on events, and explain that using the concept of emergence. To summarise briefly, the argument is that social structures depend on the ways in which people and things interact, and as a result they have causal influences that wouldn't exist if it wasn't for those interactions. Organisations like banks and governments, for example, may consist of groups of people and perhaps buildings, computers and the like, but they have causal powers that all of those people and things would not have, even collectively, if they weren't organised in the particular ways that make them, collectively, into banks and governments. Different critical realists have different but broadly compatible variations of this argument. For

[19] For a brief discussion of the discriminatory knee-jerk reaction to her claims about the potential of price controls in the context of corporate profiteering visit: https://www.newyorker.com/news/persons-of-interest/what-if-were-thinking-about-inflation-all-wrong

example, Roy Bhaskar, Margaret Archer, Tony Lawson, Bob Jessop, myself and others (e.g. Bhaskar 1975, 1989; Archer 1995; Elder-Vass 2010).

Archer's morphogenetic cycle, in particular, is very much about the processes through which structural powers come about and develop as a result of individual actions and interactions. That suggests that once we recognize that valuation conventions are an important part of the causal mix, we must also ask how the set of conventions that influence outcomes has itself come to be the way that it is.

One of the more important arguments I develop in *Inventing Value* is that valuation conventions, and value narratives that are used to connect individual assets and commodities to particular valuation conventions, are strongly shaped by deliberate discursive work, in particular work done by people I call value entrepreneurs (I mentioned this with the Snap example if you recall). Value entrepreneurs, usually operating on behalf of larger structures like corporations, actively seek to influence how the assets or commodities in which they have an interest are valued by influencing the discursive environment. The luxury goods industries, for example, have gradually but cumulatively built a sense that the goods they produce have status because they embody heritage and heritage should be valued – as Boltanski and Esquerre have argued in their recent work on enrichment (Boltanski and Esquerre 2020). One extraordinary example is the way in which the guitar company Fender, having recognised that worn guitars have a prestige arising from the sense that they have served expert players well for many years, have started to produce pre-damaged new guitars and sell them at a premium.

Jamie: These are interesting examples, but they seem to rest on physical qualities of commodities. Your main focus though is financial assets…

Dave: Because they don't have clear material consequences for our well-being on which to hang valuations, conventions are even more significant for financial assets. Their value rests entirely on future revenue streams, which of course takes us back to your quote from Keynes. As Keynes said, financial valuations rest quite heavily on the thoroughly unreasonable expectation that things will continue as they are, and hence that future income streams can be taken as read for the purpose of valuing assets. But what does it mean for things to "continue as they are"? Does it mean, for example, that a stock will continue to yield the same percentage dividend indefinitely or perhaps that internet firms will be able to extract a certain number of dollars of advertising revenue per user per annum, or...? What versions of "continuing as they are" are going to be transformed into conventions, and which one of them (or which ones) is going to apply to any given asset? Each of these is a different way of imposing a sense of predictability on an inherently uncertain future, and the prices that can be achieved for financial assets are highly sensitive to which of them is applied. Just as in commodity exchange, firms have a powerful interest in influencing the conventions applied to assets and so engage in shaping value discourses. Financial value entrepreneurs are in the business of developing favourable conventions for the assets they are marketing and producing a sense that this is the natural and obvious way of valuing the assets concerned. But different conventions could have been applied, with the result that investors would have valued the assets concerned quite differently.

Jamie: Though this implies a capacity to persuade, a position and power from which to persuade (or at least disseminate) and some basis for persuasion to be possible in the first place… since the world does not reduce to stories we (or any given group with power) tell about financial assets… In any case, though we may live in a world which continually reinvents "too good to be true" stories (as captured in the general sense of "this time will be different") financial crises continue to occur and assets fail to perform… value invention does not escape this… I take it you don't deny this…

Dave: On the contrary, one part of my argument is that the value stories told by value entrepreneurs are fundamental to the processes through which financial asset values are over-hyped, leading to bubbles and crises. One of the chapters in *Inventing Value* is devoted to the rise of mortgage-backed securities and how investors were persuaded to value them as safe investment-grade securities, which led directly to the 2008 global financial crisis. Financial asset values, in other words, do not simply reflect underlying revenue streams but rather are manipulated to serve the interests of those with discursive power in this institutional space.

Jamie: Is there a difference between "over-hyped" and over-valued? Isn't what a structured credit security like a CMO, CLO or CDO can be "worth" dictated in then end by the income streams attached to it and the scope for defaults within the sources of income… I take it you are not denying that there is a structured and in some sense systematic set of relations that affect potentials in the world and influence whether valuations can be sustained in the given case…

Dave: We have to tread a careful path here. On the one hand, the value of a security does depend on the terms of the contract that constitutes it. In the case of a municipal bond issued by a stable and cautiously managed city government, for example, the terms of the bond guarantee a given stream of payments with very little risk of default, and the price of the bond is unlikely to vary much from the net present value of that payment stream at the currently prevailing risk-free interest rate.

Jamie: Both of which (net present value and risk free interest rate) might be described as concepts within statistical conventions, whose relevance is as methods to incorporate the future for the purposes of fixed income valuation practices, and both have their critics…

Dave: Quite right. While the risk free rate of interest is in principle a theoretical quantity, it is conventionally measured as the inflation-adjusted rate of interest currently priced into U.S. Treasury bonds (or sometimes the local equivalent outside the U.S.). Although the convention might be controversial, once we accept the convention, that rate is an objective fact in the sense that anyone who knows the convention can go and check what the current rate is and as long as they follow the socially established methods for doing so they will come up with the same answer as anyone else who does the same. At any given moment, in other words, the rate exists at a certain level regardless of what any of us thinks about it. Similarly, the use of net present value to evaluate future income streams is a convention, because other techniques are possible. Nevertheless, once we accept that convention, the techniques for calculating net present value are well known, and anyone who applies them competently to the same set of numerical inputs will come up with the same answer.[20] Given that, we can say that these bond prices are largely based on objective facts, and if they rose significantly above the net present value of that income stream it would be reasonable to say that they are over-valued: there are

[20] To be clear, Dave's point assumes use of the same discount rate and formula. The concept of net present value is highly sensitive to discount rates. For a simple explanation which is not about sovereign debt visit: https://propertymetrics.com/blog/npv-discount-rate/

systematic relations here that affect potential payment streams and thus whether valuations can be sustained.

Jamie: And, of course, valuations change as the whole context of sovereign debt changes (otherwise yield curves would not have the significance they do in the world of finance)…[21] In any case, you seem to be working up to a contrast….

Dave: In contrast, the payment streams arising from many types of security are radically uncertain. The price of Apple stock, for example, depends massively on the belief of investors that the company's revenues will continue to grow reliably – one version of Keynes's convention! But that belief, like most of our beliefs about the future, does not express an objective fact – Apple's sales, for example, could collapse over the coming years. Despite that we cannot *objectively* say that Apple's stock is over-valued, because Apple's stock does not have an objective value, because the future revenue streams it generates are thoroughly unknowable, and all estimates of it are subjective. Again, there is a sense in which Apple's stock price reflects systematic relations because it does depend on the company's earnings, but the relation between the two is highly elastic, because of the uncertainty of future earnings, and as a result it is indeed influenced by hype and by the valuation conventions that investors have adopted. Among other things, therefore, my work provides a contrast to mainstream financial economics, and in particular the efficient markets hypothesis, which implies that financial assets are thoroughly rationally valued, purely on the basis of the best available information about their future revenue prospects.

The efficient markets hypothesis is part of the contemporary ideology of financial markets. One of the reasons it is popular with finance sector actors is that in the context of mainstream models it can be read as implying that the financial markets allocate capital perfectly to its most productive potential uses. If all financial assets are priced in accordance with their future revenue streams, and those revenue streams represent the profits that would be made by this use of capital, and those profits correspond to the social benefits created by the investment, then with a bunch of further assumptions about how markets work, you can claim that the financial markets lead capital to flow towards its most productive possible uses. Of course, just about every step in that argument is full of holes, but it adds up to a story that justifies the kind of finance sector we have, and so those who benefit from that kind of finance sector find it convenient to assume away the holes.[22] My book adds one more hole: if the prices of financial assets do not reflect some sort of objective knowledge of future revenue streams but rather are manipulated by financial entrepreneurs who tell self-interested stories about how we should value them, then the whole argument that the finance sector allocates capital to its most socially productive uses falls apart. The book therefore gives us yet another ground to challenge the legitimacy of contemporary capital allocation.

Jamie: It does, though this perhaps also makes some ways of opposing the power and consequences of finance more problematic. If the focus is value formation in terms of norms that influence what we think things are worth, then the difference between value creation and value extraction becomes problematic…

[21] Visit: https://www.bankofengland.co.uk/statistics/yield-curves

[22] Note from Jamie: see, for example, Guerrien and Gun (2011); Shabani and Toporowski (2015).

Dave: Well, yes, as our discussion indicates I think the whole distinction between value creation and value extraction *is* problematic. This pair of concepts is used quite commonly in critical discussions of the economy, for example by Marianna Mazzucato in her otherwise excellent book on value (Mazzucato 2018). But it rests on a version of Marx's theory of value that assumes labour value or something like it is somehow embedded in commodities when they are produced and then available to be appropriated later. That's incoherent – labour is a process that produces changes in goods, but there is no labour substance that somehow gets embedded in them. So there is no inherent value in goods available to be "extracted". On the contrary, value depends on evaluation, and it varies depending on who is doing the evaluating, how they are doing it, and what their objective is.

Jamie: I take it though you do not deny that practices can be more or less amplifying of wealth and income inequality, more or less damaging to the financial viability of an organization (e.g. private equity use of leveraged buyouts in some cases), and involve dubious justifications for the payment of, for example, special dividends to investment funds to the detriment of the finances of the target firm…[23] You just have a different way of thinking about warrants and critique…

Dave: I hope you don't mind if I answer the middle part of that question by promising to write about it in my next book, which focuses on profit. I've focused here and in most of *Inventing Value* on how transactors assess what prices they are willing to pay or to accept in exchange, but there are other kinds of evaluation too, which provide warrants for other kinds of critique. Notably, we can make assessments of the *social value* of things, or at least of using things in particular ways, and those assessments inevitably draw on ethical values to which we are committed, such as hostility to excessive inequality or commitment to minimum standards of flourishing for all human beings. The social value of a pile of bricks, for example, does not depend on what labour went into them, but on what they are going to be used for and how we evaluate those uses against our ethical commitments. The social value of the bricks will vary depending on whether they are used to build, say, a hospital, a prison, a mansion for a billionaire, or a block of social housing. That reaches towards a *politics* of value, and in the end the point of the book is that we must escape from the objectification of value by both the labour theory and neoclassical economics and recognise instead that value is political. That in turn means rejecting the neoliberal nightmare of allocating resources purely based on market processes and reinstating democratic debate about the *social* value of alternative choices.

References

Al-Amoudi, I. and Latsis, J. (2014) "The arbitrariness and normativity of social conventions." *The British Journal of Sociology,* 65(2): 358–378.

Archer, M.S. (1995) *Realist Social Theory: The Morphogenetic Approach*. Cambridge: Cambridge University Press.

Archer, M. S. (2003). *Structure, agency, and the internal conversation*. Cambridge: Cambridge University Press.

[23] Note from Jamie: for context see the interviews on private equity and hedge funds, Batt and Morgan (2020); Fichtner and Morgan (2023).

Arnsperger, C. and Varoufakis, Y. (2006) "What is neoclassical economics?" *Real-World Economics Review,* 38: 2-12. http://www.paecon.net/PAEReview/wholeissues/issue38.pdf

Batt, R. and Morgan, J. (2020) "Private equity and public problems in a financialized world: an interview with Rosemary Batt." *Real-World Economics Review*, 94: 83-108. http://www.paecon.net/PAEReview/issue94/Batt-Morgan94.pdf.

Bhaskar, R. (1975). *A realist theory of science*. Leeds: Leeds Books.

Bhaskar, R. (1989) *The Possibility of Naturalism*. London: Routledge.

Boltanski, L. and Esquerre, A. (2020). *Enrichment: A Critique of Commodities*. (C. Porter, Trans.) Cambridge: Polity.

Boltanski, L. and Thévenot, L. (2006) *On Justification: Economies of Worth*. Princeton: Princeton University Press.

Bourdieu, P. (1990) *The Logic of Practice*. Cambridge: Polity.

Boyer, R. Caillé, A. and Favereau, O. (2022). "For an institutionalist political economy. A quasi manifesto." *Mauss International*, 2(1): 482–491.

Chester, L. and Jo, T. H. (eds) (2022) *Heterodox Economics: Legacy and Prospects*. Bristol: World Economics Association.

Collier, A. (1999) "Response to Geoffrey Hodgson." *Alethia,* 2(2): 10-12.

Dequech, D. (2007) "Neoclassical, mainstream, orthodox and heterodox economics." *Journal of Post Keynesian Economics,* 30(2): 279-302.

Dequech, D. (2012a) "Conventions." In King, J. (ed.) *The Elgar Companion to Post Keynesian Economics.* Cheltenham: Edward Elgar, 111-114.

Dequech, D. (2012b) "Post Keynesianism, Heterodoxy and Mainstream Economics." *Review of Political Economy,* 24(2): 353-368.

Dequech, D. (2015) "Old and New Institutionalism in Economics." *International Encyclopedia of the Social & Behavioral Sciences,* Volume 17 (of 25): 190-195.

Dequech, D. (2017) "Some institutions (social norms and conventions) of contemporary mainstream economics, macroeconomics and financial economics." *Cambridge Journal of Economics,* 41(6): 1627-1652.

Desrosières, A. (2011) "The Economics of Convention and Statistics: The Paradox of Origins." *Historical Social Research,* 36 (4): 64–81.

Diaz-Bone, R. (2017) "Classifications, Quantifications and Quality Conventions in Markets." *Historical Social Research*, 42(1): 238–262.

Diaz-Bone, R. and de Larquier, G. (2020) "Conventions: Meanings and Applications of a Core Concept in Economics and Sociology of Conventions." In Diaz-Bone, R. and de Larquier, G. (Eds.) *Handbook of Economics and Sociology of Conventions*. Cham: Springer International Publishing, 1-27.

Elder-Vass, D. (2008) "Integrating institutional, relational, and embodied structure: an emergentist perspective." *British Journal of Sociology*, 59(2): 281-299.

Elder-Vass, D. (2010) *The Causal Power of Social Structures*. Cambridge: Cambridge University Press.

Elder-Vass, D. (2012) *The Reality of Social Construction*. Cambridge: Cambridge University Press.

Elder-Vass, D. (2016) *Profit and Gift in the Digital Economy*. Cambridge: Cambridge University Press.

Elder-Vass, D. (2019) "No price without value." *Cambridge Journal of Economics*, 43(6): 1485-1498.

Elder-Vass, D. (2021) "Assets need audiences: How venture capitalists boost valuations by recruiting investors to asset circles." *Finance and Society*, 7(1): 1-19.

Elder-Vass, D. (2022a) *Inventing Value*. Cambridge: Cambridge University Press.

Elder-Vass, D. (2022b). "Pragmatism, critical realism and the study of value." *Journal of Critical Realism*, 21(3): 261–287.

Favereau, O. (2008) "The Unconventional, but Conventionalist, Legacy of Lewis's 'Convention'." *Topoi*, 27(1–2): 115–126.

Favereau, O. (2019) "The economics of convention: From the practice of economics to the economics of practice." *Historical Social Research,* 44(1): 25-51.

Fichtner, J. and Morgan, J. (2023) "Why Hedge Funds Matter: An interview with Jan Fichtner." *Real-World Economics Review,* 104: 17-48. http://www.paecon.net/PAEReview/issue104/Fichtner_Morgan104.pdf

Fleetwood, S. (2008a) "Institutions and social Structures." *Journal for the Theory of Social Behaviour*, 38(3): 241-265.

Fleetwood, S. (2008b) "Structure, institution, agency, habit and reflexive deliberation." *Journal of Institutional Economics*, 4(2), 183–203.

Fine, B. and Saad-Filho, A. (2018) "Marx 200: The Abiding Relevance of the Labour Theory of Value." *Review of Political Economy,* 30(3): 339-354.

Fullbrook, E. (ed.) (2002) *Intersubjectivity in Economics: Agents and Structures.* London: Routledge.

Fullbrook, E. (ed.) (2009) *Ontology and Economics.* London: Routledge.

Fullbrook, E. (2019) *Market-Value, its Measurement and Metric.* Bristol: World Economics Association Books.

Ghosh, J. and Morgan, J. (2022) "A Life in Development Economics and Political Economy: An interview with Jayati Ghosh." *Real-World Economics Review*, 101: 44-64. http://www.paecon.net/PAEReview/issue101/GhoshMorgan101.pdf

Giddens, A. (1984) *The Constitution of Society*. Cambridge: Polity.

Guerrien, B. and Gun, O. (2011) "Efficient Market Hypothesis: What are we talking about?" *Real-World Economics Review*, 56: 19-30. http://www.paecon.net/PAEReview/issue56/GuerrienGun56.pdf

Hodgson, G. (1998) "The Approach of Institutional Economics." *Journal of Economic Literature,* 36(1): 166-192.

Hodgson, G. (1999) "Marching to the Promised Land? Some Doubts on the Policy Affinities of Critical Realism." *Alethia,* 2(2): 2-10.

Hodgson, G. (2004a) *The Evolution of Institutional Economics: Agency, Structure and Darwinism in American Institutionalism.* London: Routledge.

Hodgson, G. (2004b) "Some claims made for critical realism in economics: two case studies." *Journal of Economic Methodology,* 11(1): 53-73.

Hodgson, G. (2006) "What are institutions?" *Journal of Economic Issues,* 40(1): 1-25.

Hodgson, G. (2019) *Is There A Future for Heterodox Economics.* Cheltenham: Edward Elgar.

Jagd, S. (2007) "Economics of Convention and New Economic Sociology: Mutual Inspiration and Dialogue." *Current Sociology*, 55(1): 75–91.

Keen, S. (2011) *Debunking Economics*. London: Zed Books.

Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*. London: Macmillan.

Lavoie, M. (2016) "Frederic Lee and Post-Keynesian Pricing Theory." *Review of Political Economy,* 28(2): 169-186.

Lawson, T. (2003) *Reorienting Economics.* London: Routledge.

Lawson, T. (2019) *The Nature of Social Reality.* London: Routledge.

Lee, F. (1999) *Post Keynesian Price Theory.* Cambridge: Cambridge University Press.

Lewis, D. (1969) *Convention: A Philosophical Study*. Harvard University Press.

Lewis, D. (1973) *Counterfactuals.* Cambridge, Mass.: Harvard University Press.

Lewis, D. (1986) *On the Plurality of Worlds.* Oxford: Blackwell.

MacKenzie, D. (2006) *An Engine, Not a Camera: How Financial Models Shape Markets*. Cambridge, MA: MIT Press.

Masood, E. (2016) *The great invention: The story of GDP and the making and unmaking of the modern world.* London: Pegasus Books

Mazzucato, M. (2018). *The Value of Everything: Making and Taking in the Global Economy*. London: Allen Lane.

McNeill, J. (2001) *Something new under the sun*. London: Penguin.

Moore, J. (2015) *Capitalism in the web of life*. London: Verso.

Morgan, J. (ed.) (2016) *What is Neoclassical Economics?* London: Routledge.

Orléan, A. (2014) *The Empire of Value: A New Foundation for Economics* (tran. MB Debevoise). Cambridge, Massachusetts: MIT Press.

Peacock, M. (2013) *Introducing Money.* London: Routledge.

Robinson, J. (1971) "The theory of the firm." In Robinson, J. *Economic Heresies.* London: Macmillan, 97-108.

Shabani, M. and Toporowski, J. (2015) "A Nobel Prize for the Empirical Analysis of Asset Prices." *Review of Political Economy*, 27(1): 62-85.

Sraffa, Piero. (1926) "The law of returns under competitive conditions." *The Economic Journal*, 36(144): 535-550.

Wrenn, M. V. and Waller, W. (2021) "Boss Babes and Predatory Optimism: Neoliberalism, Multi-level Marketing Schemes, and Gender." *Journal of Economic Issues*, 55(2): 423-431.

Author contact: D.Elder-Vass@lboro.ac.uk and j.a.morgan@leedsbeckett.ac.uk

SUGGESTED CITATION:
Dave Elder-Vass and Jamie Morgan, "From original institutionalism to the economics of conventions and *Inventing Value*: An interview with Dave Elder-Vass", *real-world economics review*, issue no. 105, October 2023, pp. 87–110, http://www.paecon.net/PAEReview/issue105/ElderVassMorgan