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# Why Do Markets Change? Some Conventionalist Considerations on the Stability and Dynamic of Markets

*Luka Jakelja & Florian Brugger\**

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**Abstract:** »Warum ändern sich Märkte? Einige konventionentheoretische Überlegungen zur Stabilität und zur Dynamik von Märkten«. This paper wants to develop a dynamic approach of markets. We take the economics of conventions (EC) as the basic theoretical framework and expand it regarding concepts, which help to answer the question under which circumstances markets are either (persistently) stable or (radically) dynamic. We introduce EC as a European research program focusing on uncertainty as the fundamental problem on markets. Then we develop the concept of market regimes to draw on some main pillars of the EC and at the same time to focus attention more, as it is usually the case, on the question why conventions are stable and why they change. We argue that usually markets are relatively stable; however, crises, exogenous factors, and divergent interpretations of quality on the individual level (dissatisfaction/critique of key actors) lead to change of conventions and consequently changing market regimes. Analytically, the existing regime fails to overcome uncertainty and establish market coordination. The empirical part of the paper illustrates the theoretical concepts with the case of a regional wine market where radical change led to the fall of the market convention and the rise of the domestic convention.

**Keywords:** Market dynamics, market stability, economics of convention, quality conventions, market change, critique, innovation, uncertainty, market crises, Styrian wine market.

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## 1. Introduction<sup>1</sup>

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The “economics of convention” (in short EC) is an interdisciplinary research program that centers on the concept of conventions to develop a rich approach to (economic) processes on markets and in organizations and in society as a whole. Actors in the framework of EC possess interpretative rationality and the capacity for critique/judgment. The inherent uncertainty of situations poses the problem of coordination between actors. Value and worth depend on social processes and mechanisms, while certain knowledge is performative. Furthermore, the EC assumes a fundamental plurality of conventions and at the same time considers conventions and institutions to be imperfect (Eymard-Duvernay et al. 2010; Diaz-Bone and Thévenot 2010; Thévenot 2001). The question of change however, has so far not gained an appropriate focus within the EC. Although there is empirical work, which explicitly or implicitly relates to the EC and shows that conventions change, the question of how they change is much less prominent.

Several contributions (see Ponte 2016) in the sociology of agriculture and food markets highlighted the general “quality turn” that was visible in many food markets in the last decades. Their main argument is that the culture or ethics of food consumption changed towards ecological sustainability, regionality, organic food, and animal rights. On many food markets there was a shift from the predominance of the efficiency based, functional and scientific mass production of the industrial convention towards a different view of quality and the tradition, familiarity, and trust centered relations and artisan demand specific handcraft of the domestic convention (for an overview of different quality conventions see Boltanski and Thévenot 2006; Ponte and Gibbon 2005; or Ponte 2016).

Similar developments are visible for the Styrian<sup>2</sup> wine market. In the early 1980s, the market convention dominated the market. Wine was considered as an “ordinary” basic consumption good. Prices were the main factor of distinction and the decisive coordination mechanism on the market. Increasing output was the main goal of wine producers. Ten years later the Styrian wine market looked quite different. Dominated by the domestic convention, quality rather than prices became the main factor of distinction. Rather than cheap wines, regional, high quality, artisanally produced wines were in demand. Under-

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<sup>2</sup> Styria is a region in the south-east of Austria. In particular the south and the east of Styria are among the main Austrian wine hotspots.

pinned by various intermediaries and institutions the domestic convention was widely accepted in the 1990s, so much so that little indicated that ten years before the first followers of the new convention were considered as “weirdos” and faced much mockery.

Rather than simply describing the shift of the Styrian wine market, using the main concepts of EC we develop a heuristic of market change and stability. For the greater part, economics and (economic) sociology have both focused on static and structural conceptualizations of markets. Applications focusing on market dynamics are rare.

We argue that markets neither change recurrently like suggested by many economists of the Austrian School of Economic Thought nor are they always stable as neoclassics (implicitly) suggests. Markets are usually relatively stable social orders, which occasionally undergo radical changes. Therefore, a heuristic helping to understand and analyze market development should account for both: The usual stability and occasionally radical change of markets.

We proceed as follows: In the next part (Section 2), we introduce the concept of convention and the notion of uncertainty as a central problem in economic sociology. In the next step (Section 3), we develop our concept of *market regimes* and outline our understanding of markets and markets’ main actors. Then, we discuss market stability and change in the context of the EC. We outline mechanisms that maintain the status quo and mechanism that may break up stability and cause radical changes of markets (Section 4). By drawing on empirical material derived from qualitative interviews conducted with the main market intermediaries of a regional wine market, we illustrate our theoretical framework by the case of a market, which underwent radical change. Using the empirical material, we show the historical development and change on the market by examining how the market convention was replaced by the domestic convention (Sections 5 and 6).

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## 2. Uncertainty and Conventions

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According to Beckert (2009, 248) the central question of market sociology is “How is it that economic production and distribution can be successfully organized through markets?” Despite billions smooth daily market interactions, from an analytical perspective the frequency and stability of market relations seems surprising. Market interactions and outcomes are by nature uncertain, which makes stable relations and social orders unlikely in principle. Knight (1921) and Keynes (1921) distinguish risk and uncertainty: A situation is risky if mathematical likelihoods of different outcomes are definable. In contrast, uncertainty means that neither likelihoods nor possible outcomes are clear. Considering markets to be characterized by various uncertainties, for Beckert

(2009, 245) “markets are highly demanding arenas of social interaction, which can only operate if three inevitable coordination problems are resolved”: The value problem (the uncertainty about the value of goods and services), the problem of competition (frequently changing and excessive competition complicates planning), and the cooperation problem (market participants’ uncertainty about others action aggravates coordination).

Defining uncertainty on markets as the crucial problem (Eymard-Duvernay et al. 2010, 2) various approaches developed different arguments about how market participants overcome uncertainty. Following Harrison C. White (1981) many contributors (Baker 1984, 1990; Burt 1983, 1992; Granovetter 1985; Podolny 2001; Uzzi 1997) argue that markets’ social embeddedness in networks reduce uncertainty and facilitate coordination. Others added further forms of market embeddedness: like “cognitive,” “cultural,” “structural,” and “political embeddedness” (DiMaggio and Zukin 1990).

Institutional approaches (Carruthers and Halliday 1998; Dobbin 1997; Fligstein 1996, 2001; Powell and DiMaggio 2008) highlight how institutions facilitate coordination and cooperation and reduce uncertainty by creating a collective general frame enabling actors to form robust expectations, about others’ actions and the general functioning of markets (Aspers and Beckert 2017; Fligstein 2001, 27).

While network approaches and neo-institutional approaches dominate the Anglo-Saxon sociological contributions, conventionalist approaches received more attention in continental Europe; in particular in France. In contrast to network and institutional approaches the “economics of convention” (EC) offers an alternative theory of markets and market interaction that puts conventions and conventional arrangements at the center.

Similarly the question of how uncertainty is reduced and coordination and cooperation on markets succeeds are the main topics of EC (see Diaz-Bone and Thévenot 2010; Jagd 2007; Knoll 2013, 2015; Salais and Storper 1992; Wagner 2001). According to EC “coordination between economic agents takes place within a context of pervasive uncertainty with respect to the actions and expectations of others” (Salais and Storper 1992, 171), which makes stable social orders quite unlikely in principle (Bogusz 2010, 9). For the EC, market participants are uncertain about: the value and quality of goods, processes, and persons; and about market specific forms of desirable and undesirable, legitimate and illegitimate actions.

For Eymard-Duvernay et al. (2010, 6) overcoming uncertainty “is the daily bread of life in communities and [...] societies.” However, unlike network approaches or institutional approaches EC assumes that uncertainty is reduced by “conventions [that] emerge as response to such [pervasive] uncertainty” (Jagd 2007, 78). Conventions are generally shared interpretations of the world (Boltanski and Chiapello 2007; Boltanski and Thévenot 2006) establishing a

collective frame enabling actors to evaluate and coordinate situations (Diaz-Bone et al. 2010, 4) and give meaning to everyday situations (Thévenot 2007). Conventions “constitute culturally established resources for the coordination applied by actors in order to interpret situations and to evaluate persons, objects, processes to achieve a common goal” (Diaz-Bone 2012, 70).

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### 3. Market Regimes and Conventions

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Despite extensive sociological research on markets, general categorizations of different market types or regimes are rare. White (1981) distinguished between three basic conditions or types of markets: grind, paradox, or unstable crowded. His categorization is based on exogenously given market-specific relations between production costs and consumption utility on the one hand and quality costs and quality utility on the other. Alternatively, Aspers (2005) distinguishes status markets (where social status is of central importance) and standard markets (where status has little influence). For Lucien Karpik’s (2010) approach the properties of the goods themselves are the criterion of classification.

Contributors in the tradition of the EC frequently distinguish markets along applied conventions. Enriching White’s (1981) market model with the fundamental assumptions and concepts of the EC Favereau, Biencourt and Eymard-Duvernay (2002) view market regimes along dominant conventions. Storper and Salais (1997, 33) distinguishing four ideal-typical “Worlds of Production.” “*The Interpersonal World*,” “*the Market World*,” “*the World of Intellectual Resources*,” and “*the Industrial World*” consist of specific production, organization, coordination, and distribution logics, which are orientated on a specific convention. Several EC contributors suggested that markets or market segments are characterized by one dominant convention (Diaz-Bone 2007, 498; Diaz-Bone and Thévenot 2010, 6). Empirical studies highlight that markets are often subdivided into segments dominated by different conventions (Boisard 2003; Diaz-Bone 2005).

We argue that markets are characterized by market regimes. Market regimes are market specific combinations of conventions and institutions. In contrast to economic- and sociological-neo-institutionalism and following the EC mainstream we distinguish between institutions and conventions (for the EC view on intuitions see Diaz-Bone 2009, 2011, 2012, 2014; Wagner 1994; Bessy 2002, 2012; Bessy and Favereau 2003). According to the EC institutions are dispositives facilitating coordination. However because the interpretation, use, and meaning of institutions are open, conventions enable actors to give institutions a collective meaning and interpretation in different situations (Diaz-Bone 2012, 69-70). Because actors are able to use various conventions for a

pragmatic handling of institutions, depending on the applied convention the same institutions may be interpreted, used, and understood quite differently (Diaz-Bone 2009). It is assumed that both institutions and conventions, and the relation between them, determine actors' interpretation of situations and their behavior. Therefore, we consider market regimes to comprise of institutions important for the specific market or market segment and conventions used by market participants to interpret and use institutions and to evaluate products, actors, and techniques. Quite important for our heuristic, outlined below, is that the relation between institutions and conventions may be harmonic or conflicting and may change over time. In the case of a harmonic relation, institutions and conventions often support and stabilize each other: Conventions may function as a normative fundament of institutions and therefore legitimize the institutional setting. The other way around dominant conventions, in one way or another, institutionalize. The institutionalization of dominant conventions further strengthens their hegemony; while a harmonic relation between institutions and conventions stabilize markets and market regimes a conflicting relation is a major reason for radical innovations and fundamental market dynamics; as outlined in more details below.

In addition to the market regime, markets comprise, at least, three actors: at least, two producers and one consumer or the other way around. In addition to producers and consumers usually markets contain intermediaries (Beckert 2010, 609). Intermediaries are organizations, which are neither producers nor consumers, nor institutions; they provide information, education, organization of actors and offer value assessments of "goods, individuals and organizations" (Bessy and Chauvin 2013): like educational organizations, the media, and interest groups. Intermediaries are in-between producers and consumers: Some may be closer to producers others are more related to consumers.

Conventions support and facilitate actions (Dodier 2010) by constructing shared imaginations of how things should be (Diaz-Bone and Thévenot 2010, 5). Conventions are general logics, shared grammars, which facilitate the collective valuation and classification of objectives and actors; the selection of production processes, equipments, and distributing strategies; and function as price formation and organization forms (Diaz-Bone 2007, 496-7). Shared conventions enable actors to form expectations about the future and others' actions, and function as road maps of desired and undesired, legitimate and illegitimate actions. Hence conventions are mechanism to overcome uncertainty in situations where coordination is necessary (Diaz-Bone 2009, 237), are "guides for actions" and "collective systems to legitimize" actions, they are "reciprocal expectations about the behavior of others" (Ponte 2016, 13).

Market regimes provide a shared, generally known, complex system of valuations, of statements about desired and undesired, legitimate and illegitimate, permitted and prohibited actions. For example market regimes

specify desired and undesired forms of production and distribution (Storper and Salais 1997), what quality is and how it is generated (Eymard-Duvernay et al. 2010), legitimate intermediaries and their decisions (Bessy and Chauvin 2013; Karpik 2010), and define desired and undesired forms of consumption and relations between the market participants. As a shared grammar market regimes offer orientation to producers which forms of production, used techniques and distribution are desired and undesired, permitted and prohibited in the specific market segment and how it transfers into quality and prices. It offers to consumers a yardstick to value and interpret quality and orientation about desired forms of demand and consumption and how these transfers into status and reputation. Market regimes provide orientation to intermediaries about desired and undesired, legitimate and illegitimate ways to enforce interests. Market regimes transform a wide range of possible actions, investments, education, knowledge, goods, etc., into market opportunities. By transferring possible actions into “single currency” known to all market participants, market regimes reduce uncertainty, and facilitate cooperation and coordination.

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## 4. Statics and Dynamics of Market Regimes

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Despite the growing interest in markets in general, sociological contributions regarding market dynamics are scarce. Capitalist dynamics was a core topic of the early “economic sociology” at the late 19th and early 20th century. Max Weber, Karl Marx, Joseph Schumpeter, or Karl Polanyi intensively analyzed the dynamic of capitalist societies. Since then the analysis of capitalism, and in particular its dynamic development, fell back behind new trend topics in sociology. More recently some authors (Beckert 2014, 2009; Deutschmann 2012; Dosi et al. 2009; Nelson and Winter 1996; Scherer 2012) re-raised the issue of capitalist dynamics. However, the dynamics of capitalism in general and of markets in particular is still a marginal issue in contemporary (economic) sociology.

### 4.1 Usually Stable, Occasionally Changing

Traditionally we find two opposing general views on markets’ stability and dynamic. The first, the static view, dominates neoclassical economics and most of the new market sociology. Explicitly or implicitly, the representatives of the static view assume that markets are in equilibrium or at least tend towards equilibrium. Recognizing the possibility of (exogenous) interrupting shocks, which disturb the equilibria, usually it is assumed that eventually markets return to equilibria.

In sharp contrast to static views, dynamic approaches consider capitalist markets as restless and immanently dynamic by nature. Dynamic approaches



were particularly advocated and developed by contributors of the Austrian school of economics. Inspired by Marx, for the “Austrians,” the main characteristic of capitalist economies is their immanent dynamic evolution, which is why they fiercely criticized the neoclassical approach. For Schumpeter (1939, 1942) the recurrent sequences of innovation and imitation and for Hayek (1945) the steady production of new knowledge cause the never-ending dynamic evolution of capitalist markets.

However, empirically both views seem unsatisfactory: Markets are usually relatively stable social orders, which occasionally undergo more or less radical changes. Hence, most of the time markets are well-functioning arenas of social interaction as mechanism succeed to reduce uncertainty and facilitate coordination. Nevertheless, occasionally markets face deep crises and undergo fundamental changes. Thus, a theory of market development should account for both: the usual stability and occasional fundamental change of markets.

Whether markets are considered as immanently dynamic or rather stable strongly depends on how stability and change is defined. The Austrian school considers the introduction of new products, changing applied technologies, and the creation of new knowledge as innovations that change markets. In contrast, from the neoclassical perspective, change means fundamental shifts in the market structure. We focus on changes that shift market regimes: Hence, situations in which dominant conventions and the institutional setting – the market regime – are overthrown.

Fligstein and McAdam (2012, 13) distinguish between radical and less far-reaching changes: “it is useful to separate out the dramatic changes that occur in the formation and transformation of a field from the more piecemeal changes that result from contention in fields on an ongoing basis.” Likewise Argyris and Schön (1978) distinguish between Single-Loop and Double-Loop-Learning as reactions on the mismatch between goals and outcomes. The former describes the adaption of action only, the latter more fundamental adjustments like the transition of the guiding principles. Similarly we differentiate between normal and radical innovations. Normal innovations include all changes like the introduction of new products, new techniques, the appearance of new producers, consumers and intermediaries that do not affect the underlying market regime. Normal innovations occur within the boundaries of the dominant market regime leaving the underlying market regime unchanged. In contrast, radical innovations shift the underlying market regime. While normal innovations frequently occur, radical innovations are rare.

## 4.2 The Stability of Market Regimes

Why are markets usually relatively stable? Just remember that stability means here the absence of radical innovations. So why are radical innovations rela-

tively unlikely? We develop three main arguments why market regimes are usually relatively stable. First, market regimes are usually successful in reducing uncertainty and facilitating coordination and cooperation. Second, market participants invest in market regimes; radical innovations devalue, at least partly, these investments. Third, market regimes create “winners” and “losers.” Market regimes evaluate products and actors: Some actors and products receive a high value or status – “winners” – others a lower one – “losers.” Radical innovations question and shape the position of “winners” and “losers,” which is why usually “winners” have a very good reason to prevent radical innovations.

Once established and acknowledged by market participants, market regimes reduce uncertainty, facilitate coordination and cooperation and therefore make stable market interactions possible. Orientating their actions on the same market regime enables participants to form expectations about others’ actions and the future. Disturbances of established market regimes increase uncertainty and complicate coordination and cooperation. During times of change market participants are uncertain about their own and objectives value and status or more generally about the valid system of valuation, about the logic of others’ action and the future in general. The increasing uncertainty hampers coordination and cooperation as participants lose a shared orientation. Because market participants have a strong vested interest in stable relations and social orders on markets, which allows them to form expectations on others’ action and the future, they are usually critical of radical innovations.

Producers, intermediaries, and consumers invest in the established market regime. Investments include production technologies, skills, education, and distribution channels, etc. Intermediaries invest in programs, offered services, and political strategies and consumers invest in knowledge about the market and market goods in accordance to the established market regime. Take for example the domestic convention: It favors family businesses and crafts enterprises with close personal ties to consumers. Excellence regarding the craft, tradition, personal experience, personal relations between producers and consumers and trust are the key orientations to evaluate quality (c.f. Diaz-Bone 2018, 150-1, 162). Producers invest in traditions, handcraft, artisan excellence, technologies that allow for little division of labor, small quantities, and singularity and distribution channels that intensify personal relations to consumers. Because information predominately consists of oral stories (Diaz-Bone 2018, 152) consumers invest in stories, in knowledge about desired production and distribution forms, in personal networks with producers and more generally in information about the specific system of valuation. Intermediaries invest in services for producers like education courses for artisan, traditional production, and for consumers about the “right” way of goods valuation; in media and medial presentation of goods and market participants compatible with the domestic convention. A radical innovation like the shift from the domestic con-

vention to the industrial convention would amortize most of producers', consumers', and intermediaries' investments.

David Dequech (2013) offers a set of explanations for conformity with institutions and consequently not occurring innovations. He sees coordination, the lack of power and/or resources, uncertainty, imitation, the role of social sanctions, the perception of institutions as natural and inevitable and the legitimacy of institutions as reasons for conformity in different institutional contexts. Especially the role of legitimacy is interesting, because criticism of institutions and therefore their illegitimacy, as will become clear in the next section, is a crucial argument for change within the framework of the EC.

As mentioned, market regimes create winners and losers. As in other "fields" (Bourdieu and Wacquant 1992, 94-115) or "strategic action fields" (Fligstein and McAdam's 2012, 14) market regimes are structures that distribute better and worse field positions, in the form of status and product prices, to actors. According to Bourdieu (1993, 73) those with the good field position usually follow "conservation strategies" or tend to "orthodoxy." In the same manner Fligstein and McAdam (2012) argue that "incumbents" notoriously protect the status quo. Following the EC and distinguishing between critic and justification (Knoll 2017, 156-7) those with good market positions use their means to justify the status quo; hence to justify the dominant convention. Therefore, fearing that radical innovations would corrode their hegemony and favorable position market leaders have a strong vested interest to use their means to protect the status quo.

The first point we state above is that any given constellation of institutions and conventions, of intermediaries, consumers and producers on a market offers some kind of reduction of uncertainty, coordination and cooperation. In other words, a market regime always offers some minimal degree of order.

In EC, André Orléan (2014) refers to René Girard and introduces mimetic behavior in his critical discussion of neoclassical theory. Imitation of others becomes a mechanism disrupting the neoclassical view that prices adjust in a manner leading to equilibrium. Considering fashion for example, imitation can lead to a situation where rising prices lead to a higher quantity of products sold. That is, the demand function has a positive slope. This of course, turns neoclassical economics upside down. In Orléan's view, imitation is a key mechanism for conventions. Mimetic behavior establishes and stabilizes conventions on markets with according prices, which are not the same as the price vector of general equilibrium theory. When it comes to the distinction of quality conventions, the neoclassical market itself is actually a convention different from, for example, the regard convention (where fame and status play a crucial role for determining prices). As Orléan notes, for neoclassical economics this is already a dynamic market situation. However, within the context of EC, imitation leads

to stability of conventions. As will become evident in the next section, the capacity of the individual for critique is a main aspect of changing conventions.

### 4.3 The Dynamics of Market Regimes

In the last decades, several conventional contributions studied the shift of conventions on various agricultural markets (Ponte 2016): Cidell and Alberts (2006) looked at the changing definitions of quality at the chocolate market; others studied shifting conventions in markets like Sánchez-Hernández et al. (2010) for the wine market in Castile and Leon, Stræte (2004) for the dairies market in Norwegian, Murdoch and Miele (1999) for the eggs and organic meat market in Italy, and Lindkvist and Sanchez (2008) compared the Spanish wine market with the Norwegian market for salt fish.

Delivering very interesting results those studies use the theoretical framework of the EC to analyze, but are much less interested in discussing their approach and findings theoretically. Most contributors show empirically how specific markets' dominant conventional shifted, without developing theories or heuristics of conventional dynamics. Hence, those studies hardly outline how conventional change does fit into the EC theory and may be understood from the perspective of the EC. In addition, most studies take a high macro perspective and are focused on the description of the “old” and “new” status quo, which is why they usually ignore processes at the micro- and meso-level and more generally conflicts and adjustments during the process of change. In contrast to those studies, we try to develop a heuristic of market dynamic, which uses the main concepts of the EC and focuses particularly on the process of change.

Above we outlined several mechanisms that maintain the status quo. Radical innovation need to overcome mechanism maintaining the status quo to be successful. Below we identify several forces, which oppose the status quo and occasionally are strong enough to overcome it. We argue that particularly the coincidence of several forces, market participants' dissatisfaction with the status quo, exogenous factors, and market crises may overcome the mechanism maintaining the status quo and cause radical innovations.

The possibility of regime change is constituted in EC's pragmatist action theory. According to EC, actors possess the ability to interpret and reflect conventions in the light of specific situations and circumstances. Actors are aware of alternative conventions and have the ability to interpret and to reflect the appropriateness of conventions (Diaz-Bone 2010, 183). For the EC, actors are “interpretative rational” in the sense that actors are able to evaluate situations and conventions and the appropriateness of conventions for the given situation. Because actors are aware of alternative conventions, they are principally able to imagine a world different from the status quo; hence, a market regime different

from the established one. The ability to imagine alternative market regimes entails the possibility of criticism and regime changes; these two figures are central to the EC (Knoll 2013, 2017). However, the question appears: where does critique comes from?

A permanent source of criticism emerges from the unequal distribution of market opportunities, between those with the better and the worse market position. The unequal distribution of market opportunities is a permanent source of possible conflicts between those benefiting from the adscript market position and those with the worse position expecting that alternative regimes may raise the value of their attributes value their attributes. Actors with less favorable market positions have a strong vested interest in attacking the status quo and shifting the market regime.

Apart from materialist reasons, conventions face idealistic critiques as conventions represent a specific “sense of justice” (Thévenot 2011, 113) that does not always fit the ideal and ethical concepts of market participations and the market environment. In many sociological studies, shifting ideas are considered as the main reason for changing conventions. For example, according to several contributors, the “quality turn” in agricultural markets was induced by shifting consumption ethics and the rise of new ideas about wealth and justice. Authors’ main argument is that the increasing demand for organic, regional, fair trade goods, which was closely connected with the rise of new ideas about environmental sustainability, consumer responsibility, animal rights and so on, shifted many markets from *industrial conventions* toward *domestic* and *ecological conventions* (see Barrientos and Dolan 2006; Murdoch and Miele 1999; Ponte 2016).

Material and ideal critique on market regimes often remains weak, segregated and local and hardly challenges the status quo. The critique of those with lower market positions and idealistic outsiders is often rejected by the majority of the market participants as criticism of “losers” and “idealistic weirdos.” However, occasionally critique spreads, accelerates, and reaches former supporters of the established market regime. Criticism spreads as market participants demand the orientation on alternative ideas, like for example consumers demand for organic food; if market regimes are increasingly considered as unable to reduce uncertainty and facilitate cooperation and coordination; and if market regimes are blamed to cause crises and bad perspectives for the market’s future.

However, even if criticism accelerates and spreads frequently it remains ineffective, local, and segregated. Market regimes may survive just because critics fail to agree on one alternative and to organize and coordinate their attacks. As more and more former supporters or silent “acceptors” of the market regime defect to the critics’ camp, radical innovations become more likely, but at the same time also the likelihood increases that the camp of critics splits

up into competing subgroups. Rather than causing radical innovations, raising criticism often leads to chaos and the return to the old regime. The subdivision of the critical camp is one of the main reasons why promising upraises fail. Successful “revolutions” are usually preceded by a canonization and bundling of local criticism. In particular “protest movements,” which unite behind “charismatic leaders” and attract actors with the ability to reach a wide audience, have a good chance to be successful. Weber, Heinze and DeSoucey (2008) show how the positive reporting of highly respected and widely known journalists helped to develop a market for grass feed beef. Ferguson (1998, 2006) highlighted the crucial importance of *culinary discourses*, the rising interests of writers, journalists, and intellectuals for culinary topics, for the development of the French “haute cuisine” in the 19th century.

Usually inner criticism is underpinned and fueled by external factors. Various influences may be considered as exogenous: institutional changes, influencing conventions of neighboring fields, or scandals and crises in other markets. Much attention was given to the importance of value and production chains for the choice of conventions (see Gwynne 2006; Ponte 2009; Ponte and Gibbon 2005; Sánchez-Hernández et al. 2010). The main argument is that globally, nationally, and regionally “conventions spread all along the value chain” (Sánchez-Hernández et al. 2010, 421). Institutional change is another main reason for radical innovations and among the most effective external factors. Several studies (Barbera and Audifredi 2012; Garcia-Parpet 2007; Weik 2016) have shown how institutional change initiated from outside, like new transnational regulations and quality laws, caused shifts in dominant market conventions.

The third main impulse for radical innovations is deep crises. Deep crises and big scandals shatter markets and may cause radical innovations. Crises and scandals question the legitimacy of the market regime and usually strengthen criticism. Garcia-Parpet highlighted the importance of market crises for radical innovations by studying the strawberry market in Sologne (2007) and the French wine market (2009). Barbera et al. (2012) show how the Italian wine scandal of 1986 fostered and fastened the change of the Piedmont wine market toward more quality and authenticity. The coincidence of rising internal critique, external stimuli, and crises makes radical innovations particularly likely.

Focusing on the relation between institutions and conventions and the critique and satisfaction with the functioning of institutions, Diaz-Bone (2012, 71-2) outlines four situations of what we call here “market regimes.” We use this as a heuristic to explain market stability and dynamic. The first situation is „normality”: Institutions are judged as functioning and they are coherent with the conventions. This is the most harmonic situation and identical with our theoretical concept of stable market regimes.

The second situation is “blockage/hegemony.” Actors view institutions as not functioning, however, there is still at least one convention in coherence with the institution(s). Actors relate to the institution in their actions and thus coordination is based on the institution, however, they “experience both as not matching with their collective interest. Then critique will be mobilized” (Diaz-Bone 2012, 71). This stage is the normal case. Hardly any established market regime is unquestioned. Actors in disadvantaged market positions and idealistic outsiders often criticize the status quo. As criticism is usually considered as the moan of the “losers” and “weirdos” by the majority of market participants, criticism fails to attract enough followers to overturn the market regime. Hence, in the second stage advocates of the established market regimes are able to repel attacks and to maintain the status quo.

Critics of situation two die out (the system returns to situation one), remain weak, segregated, and local. Or criticism accelerates and spreads and the challenger camp succeeds in overturning the established market regime (the system transfers into situation three or four). [Diaz-Bone \(2012, 72\)](#) defines situation three as (silent) “dynamic/change” (because there is no critique of the failure of institutions) and four as “crisis/failure” where institutions are seen as failing and there is no backing of institutions by any convention(s). Important is that situation three and four are “transitory and unstable” ([Diaz-Bone 2012, 72](#)). The two stages are a time of radical innovations. Former market regimes, with coherent conventions and institutions, break up by conventional or institutional change, but no new market regimes with coherent conventions and institutions develops. As a new market regime of coherent conventions and institutions establishes itself, the system returns to situation one or two, the time of radical innovation is completed and stability restores.

Two main processes shift markets from situation two to situation three and four. First, accelerating and spreading critique. Goldstone and Useem (2012) criticized Fligstein and McAdam for being over focused on the criticism from those with lower field position and therefore overlooking that successful revolutions are often led by high status actors. As outlined above the market regimes’ inability to reduce uncertainty and facilitate coordination and cooperation, rise of new ideas, market crises, bad expectations for the market’s future, and several external factors may spread criticism beyond groups usually critical of the established order and cause even market leaders to join the challenger camp. Challengers question and reject the appropriateness of the dominant conventions and/or the institutional setting. Shifts of the dominant conventions and institutional frame due to internal critique break up the established market regime. Second, exogenous, often institutional, changes, like the implementation of new transnational laws, break up the market regime. Hence stage three and four are transitory and unstable and arise from shifts in conventions or institutions. However, the two stages are characterized by much uncertainty,

disturbance, conflict, and chaos. During transitory times, the future is principally open; actors compete and negotiate over conventions, institutions, and market positions.

However, if “market revolutions” are successful and new stable market regimes are established the change has far reaching consequences for all groups of market participants and the underlying market structure. The radical innovations fundamentally shifts “what the purpose of the field [market] is, what positions the actors occupy, what the rules of the game are, and how actors come to understand what others are doing” (Fligstein and McAdam 2012, 12). Radical innovation suspends the old quality ascription, the old rankings, and the old distribution of market opportunities. Quality, value, the ranking of products, the status of producers, consumers, and intermediaries and the distribution of market opportunities, all is matter for negotiation. Overall, the whole system of desired and undesired, valuable and worthless, good and bad may break down and has to be renegotiated.

### 5. Method<sup>3</sup>

There exist only a handful of empirical studies concerned with the dynamics of markets. Most of the already discussed empirical work deals indirectly with market change. Therefor we had a strong orientation towards a method that puts openness for new and surprising findings at its center and at the same time allows a certain degree of existing theoretical concepts to be incorporated into the research. The orientation of the empirical work was therefore towards Grounded Theory (GT) (Strauss 2010 [1987]; Strauss and Corbin 1990). GT techniques like open and axial coding were used primarily to analyze the qualitative data and secondly to enable openness to come up with new and surprising discoveries. The empirical project was focused on qualitative expert interviews with individuals associated with the regional wine market in Styria. Twelve structured interviews were conducted, while the sampling approach followed a snowball strategy.

Table 1: List of Interviews

Type of organization		Interview No.
Mass media	Regional daily newspaper	I2
	National magazine	I11
Wine magazine	Regional magazine	I12
	Chamber of agriculture	I1

<sup>3</sup> The data was mostly collected by Luka Jakelja.



	Regional professional school	I6
	Internationally oriented producer association (4 member)	I3
	Regional producer association I (250 members)	I5
	Regional producer association II (10 members)	I7
Producer association	Regional producer association III (7 members) and IV (75 members)	I8
	Regional producer association V (31 members)	I10
	Regional producer association of "BIO" producers VI (5 members)	I9
Entrepreneur	Wine exporter; former CEO of a national wine association	I4

Data coding and analysis was done with Atlas.ti. After 12 interviews, a clear saturation was evident in the data, and most important organizations for the analyzed market were covered with these interviews.

## 6. The Dynamics of Market Regimes on the Austrian Wine-Market

In the following part, we present and discuss the results of our empirical research. We start in the 1970s, where the market convention was dominant. We then discuss the dawning of the domestic convention and thereby the beginning of a new market regime. In 1985, a crisis hit and lent further dynamics to the already shaken market. In the post-crisis period, the domestic convention became dominant on the market and established a new market regime.

### 6.1 The “Old” Market Regime: The Dominance of the *Market Convention*

In the 1970s and 1980s, wine was a consumption good in the region of interest. Both supply and demand followed this logic. In the understanding of the consumer, wine had similar characteristics to butter or bread. Wine was “staple food” (I11), a “most basic consumption commodity” (I5) which is why consumers expected low prices, comparable to other basic staple goods. Consequently, no criteria of differentiation (e.g., grape variety or “terroir”) between different wines existed. The *taste* of the consumers was oriented towards “sweetness,” indicating ripe grapes as the basic product of the wine. From the non-existing differentiation between quality and the uniformity regarding the expected taste of the product, it followed that prices were the decisive coordination mechanism on the markets. Wine producers supplied a product that had to “taste reasonably good” (I5), while focusing on low production costs and extended quantities. “[T]he wine culture was at a low level” (I6). Hence, the *market convention* was dominant (see Diaz-Bone 2018, 148-9 for the *market convention*). Cost-minimization and profit-maximization – as being part of

every microeconomics textbook – were the guiding principles of wine producers. The situation was one where a homogenous product meets an extensive demand, while supply and demand are regulated by the equilibrium price.

Post-World War II, the agriculture of the studied region was dominated by subsistence farming; farmers lived from the products of their small yards. Through the 1950s, 1960s, and 1970s agriculture became more market orientated, but still quite small (the average producer had about 0.5 hectares of land). Due to low prices and small vineyards winemakers could hardly live on their products. As a consequence farmers gave up their business, farms found no replacements, and many small farmers had a rather squalid existence. Others bought up yards, but could also hardly live on their products. Due to the huge competition and low prices wine producers sought to cut production costs to stay competitive and successful. In this context, a growing number of producers became *discontent* with the situation and had quite gloomy expectations of their business future.

## 6.2 Spreading Criticism and the Rise of the Outlaws

The Styrian wine market faced two main problems. First, as outlined, due to low prices and small yards wine producers could hardly live on their products. Second, the Styrian soil was quite disadvantageous to produce what was demanded: sweet, broad, and full-bodied wines. Discontent with low prices and the preferred taste so hard to produce in the area motivated a small group of winemakers to do things in a completely new way. The acuteness of the situation led to *cooperation* between a group of winemakers who were all part of the same peer group, went to school together, and lived in close distance to each other (I7). Even though the individual producers understood that the main issue on the market was the quality of the product, individualistic action was too risky because of the contradicting trend in taste of the consumers and standard production technique. Therefore, in this first phase of the development of a new market regime, *cooperative criticism* was taking place. The pre-existing friendships between these producers paved the way not only for cooperation in general but also for a process of *mutual learning* about quality wine making. This process was induced and maintained by a key individual.

The group of young winemakers had a “mentor” (I11), who himself was not in the wine business but was a “wine freak” (I1). Only by the efforts of this “outsider” and because of his charisma and enthusiasm for wine, the “core group” (I1) learned how quality was defined in internationally recognized wine hotspots and how this quality was achieved. All interviews of our sample mention the significance of this individual for the development of the regional wine market. This mentor was “collecting” international quality wines and brought these to weekly wine-tastings of the group. “[H]e was one who really knew

something about wine. He had understood something [about wine]" (I11), which led to visionary ideas and unconventional practices. One of the interviewees goes so far as to call him "crazy" (I1) with a positive connotation. The *charisma* of this individual motivated and inspired the whole group of wine-makers to leave the old paths and to be radically innovative.

This situation is what [Diaz-Bone \(2012, 72\)](#) calls a "revolutionary strategy," where there is no open critique of the existing structures, however, a shift of conventions is under way within a specific group on the market. The person of the mentor might appear in this context as a Schumpeterian entrepreneur flouting the dominant convention (Dequech 2003). However, the empirical material does not contain the exact social mechanisms concerning the mentor by which this "silent change" happened.

Another crucial aspect is *imitation*. Facilitated – not thought – by the mentor, the learning process was actually concentrating on imitating international quality. Therefore not only wine tasting was a crucial part, but also *trips* to different wine regions and international wine fairs with a high reputation. Trips meant that the small group of young "wine-revolutionaries" went out on winter weekends with the nine-seater bus of the mentor to the wine producing hot spots of central Europe. As an example, the first barrique in the region was the result of such a trip to France. All these aspects together lead to the gradual establishment of a new wine style and a new quality orientation within the small group. The practice of imitation reflects the theory of mimetic behavior as outlined by Orléan (2014), which we discuss above.

The Styrian soil and climate, this is the narrative today, is quite disadvantageous for sweet wines. Therefore, the young pioneers tried to establish a completely new style of wine, which met the international quality standards, but was in sharp contrast to the tastes of mainstream consumers and producers.

One of the *pioneers* of the Styrian wine said: "It must be possible to place a dry wine on the market. And this was, like so often, *a classic innovation* and it was a bit irritating for the market [...]" (I1, italics by the authors).

Meeting new standards of the international wine hot spots, those pioneers faced much rejection at home. The new dry wines highly "irritated" (I1) consumers and caused attacks and particularly "mockery" (I1) from most colleges. Even if most winemakers and intermediaries were unsatisfied with the status quo many invested heavily in techniques, distribution channels, and wine courses of the established market regimes. This is why they, nevertheless, rejected the radical innovation. Hence, the young "wine revolutionaries" were the outlaws on the market.

In the late 1970s and early 1980s the Styrian wine market as a whole was in stage two. The established market regime, which was dominated by the *market convention* increasingly faced criticism of market participants. Winemakers criticized that prices were too low to live on wine production and that the future

of the Styrian wine market seemed quite dark. However, at the same time the young pioneers or “wine-revolutionaries” who tried to establish a new market regime faced much mockery, rejection, and even hostility. There was much criticism; however, the critics failed to develop and unite behind an alternative market regime.

As we elaborated in the theoretical part of this paper, critique is one of the central mechanisms of change in the EC. As became evident from the empirical material presented so far, critique was primarily directed towards the situation of the market as a whole, but even more importantly towards quality of the product.

### 6.3 The 1985 Crises and the Rise of the *Domestic Convention*

Winemakers followed different strategies to cope with the difficult situation. As mentioned, some looked for alternatives, most continued as before or stopped business and a small minority started to use *illegal practices* to cut costs and artificially increase the quality of their wine. The detection of the illegal practices caused Austria’s deepest and most serious wine scandal and crisis.

The crisis hit the Austrian wine markets in 1985 as the media report of discovered “falsified” wine that was dedicated for export to Germany. The biased wine contained a chemical named diethylene glycol. The effect was that the taste of the wine was “more full-bodied, thicker and stronger” (I1). The added chemical altered the taste in a way that “[the] wine tasted like late vintage, sweet wines, broad, full-bodied wines, low acidity wines” (I1). This was an adaptation to the common taste trend of the demand side of the market, while at the same time it reduced costs for producers. The Austrian wine scandal even reached the U.S. (The New York Times 1985) and the reputation of the whole country’s wine was destroyed. The overall process of crisis management is described as “absolutely unprofessional” (I4). In this regard, it is interesting to note that it was not only a crisis in regard to a loss of reputation; the used chemicals were believed to have negative effects on health. While in Austria no documented cases of health issues in connection with the modified wine occurred, in Italy there was a scandal too, where people died because of chemicals in the wine. The media constructed a scandal that appeared to the public of much wider scope than it actually had; the media reports were “excessively exaggerated” (I11).

Consequently, the demand plummeted and suddenly the whole supply side faced potential bankruptcy. The most important consequence stemming from the wine scandal was a substantial *loss of trust* on the side of consumers. Trust relationships can be seen as two-sided, consisting of trust givers and trust takers, while the trust taker’s self-portrayal has a performative effect on the trust

relationship (Beckert 2002). In this sense the rebuilding of trust on the Austrian wine market can be interpreted as a process of a collective self-portrayal of winemakers. “[T]he reputation was broken” (I11), not only for certain producers of wine who have been involved in the illegal practices, but for the whole supply side of the market. Hence, with the wine scandal the established market regime completely failed to reduce uncertainty and facilitate cooperation and coordination. In this situation the criticism on the market regime reached all market participants. The scandal was “a shock, [...] an impulse” (I5) that triggered a reaction where “[...] everyone said: okay, we have to move towards quality and nothing else anymore” (I3).

At this point it is interesting to note that the empirical material shows how the processes of justification (Boltanski and Thévenot 2006) and quality interpretation can be brought together as done by Eymard-Duvernay (2002). As noted by Favereau et al. (2002), Eymard-Duvernay (2002) translates the theory of justice by Boltanski and Thévenot into a theory of qualities where quality is justified by an interpretative process based on different conventions (to which Boltanski and Thévenot refer as “worlds”).

One reaction to the wine scandal was that political bodies introduced the “world’s strictest wine law” and promoted it in an international campaign. The far-reaching institutional change ultimately broke up the old market regime of quite lax regulation and the dominant market convention. Unlike the former regulation, which facilitated large scale production, the new wine law favored small, high quality, and artisanal production (Brüders 1999). In addition to the new institutional frame, the socially constructed quality changed fundamentally. As mentioned before, prior to the wine scandal “sweetness” was considered as the main quality characteristic, due to the wine scandal sweetness became the taste of fraud. The “sour” taste, which in the beginning of the 1980s was laughed at and considered to be “out,” became only some five years later a characteristics of a pure, unaltered quality wine. Mistrusting the entire wine market consumers needed signals and signs that ensured them that the wine was pure and unaltered. Because the added chemicals’ effect on the wine was a sweeter taste, the “sour” taste of the wine indicated that the product was unaltered and pure and could be consumed without concerns. As one interviewee said: “Sourness became the taste of truth” (I1).

Even before the wine scandal disrupted the wine market, pioneers mostly from the group around the *mentor* started to use alternative ways and technologies of production. Intensifying handwork, applying traditional crafts and the experiences from their trips abroad, the young wine-revolutionaries became the early pioneers of the domestic convention.

The wine scandal accelerated the spread of the domestic convention. Personal contacts between producers and consumers and traditional production counterbalanced mistrust and uncertainty about the quality of the wine. In this

manner the domestic convention gradually replaced the market convention as the dominant convention.

A *new type of consumer* emerges as the domestic convention spreads. The process described above is the change of wine from a commodity to a product of culture. It is the reinvention of a century long heritage and cultural meaning of wine. Within the domestic convention wine as a product becomes more and more complex as it regains the status of a cultural good. This also means that a culture of consuming wine evolves. A mutual agreement regarding quality was established between the supply and demand sides. Consumers “followed” (I1) the new style and taste of the wine and they “slowly trusted us that there was something in the bottle or glass that was honest” (I1). This trust turns into a trend (I12) and a new evaluation of quality is successively established.

With the rise of the domestic convention and the implementation of the new wine law, the landscape of Styrian wine intermediaries took shape fundamentally. In the period between the wine scandal and the late 1990s, the development of the wine market goes hand in hand with the development of market intermediaries. Particularly central for the development of the Styrian wine market was the rise of the wine-media. Pivotal for the rise of the domestic convention and the new orientation towards quality was the reporting of a regional newspaper. Wine magazines are crucial for quality wine markets on a national and an international level, however, at the regional level certain interests of the mentioned regional newspaper and of the producer association of winemakers overlap. The regional newspaper operates in a competitive environment where its survival depends on the construction of a regional identity. Wine is a lifestyle product that reflects this identity and serves this interest (I2). In the 1990s the newspaper started to organize wine events, which became networking opportunities where cultural, political, and economic elites come together. Still, the event is also a vehicle to promote Styrian winemakers:

[...] this was a story, which we made together [winemakers and the newspaper]. [...] We were somehow the boost – if you will – in the media. [...] The message of the Styrian wine was promoted in this way. And because of that we always invite VIPs to the events, who are not wine experts [...]. These people carry on and spread the message of the Styrian wine, because they would buy it. As I said, it's about the multiplication effect. (I2)

The regional newspaper explained to a wide audience the story about the wine market's transformation: the time of cheap mass production was over and regionality, quality, traditions, handcraft, artisan excellence matters more than quantity and price. Organizing wine festivals and making stories about excellent Styrian wine, the newspaper convinced people that for high quality wine one needs not to drive far.

In addition to the regional newspaper, the vocational school for winemaking and the chamber of agriculture were particularly important for the implementa-

tion of the new market regime. Soon the vocational school for winemaking recognized the signs of the time and replaced courses teaching wine production under the market convention by courses showing techniques compatible with the domestic convention. The reorientation of the vocational school for winemaking was important in two main ways. First, because most Styrian wine producers attended this school, most young winemakers got in contact with the new style of wine production. Second, the education in the school became a widely known and understood signal for high quality wine making. Still today most winemakers use their diploma as an advertisement. The chamber of agriculture's relatively early support for the new market regime was pivotal in several ways: First, they induced many institutional changes underpinning the domestic convention like laws supporting the new convention, providing distribution channels compatible with the domestic convention, etc. Second, they used their wide networks of producers and intermediaries to encourage the new convention.

What we can see here is the mutual transformation of conventions and institutions as outlined in the framework of [Diaz-Bone \(2012\)](#) and some additional points in regard of "material" and "ideal" arguments for critique, innovation practices, and external factors (like external shocks to the market).

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## 7. Conclusion

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The starting point of our contribution is the daily life empirical observation that markets are usually relatively stable, but occasionally fundamentally change. Our main aim is to develop a heuristic of market stability and change using the central concepts of the economics of convention.

We introduce the notion of market regimes as market specific constellations of institutions and conventions. Distinguishing normal from radical innovations we divided the former as innovations within the boundaries of the market regime and the latter as shifts of the market regimes. Established market regimes facilitate coordination, cooperation, reduce uncertainty and unequally distributed market opportunities among actors. Market participants, in particular market leaders, have good reasons to protect the dominant market regime.

However, occasionally radical innovators succeed in overcoming the forces of conservatism and establishing a new market regime. Most of the time a small clique of radical innovators exists, which usually fails to overturn the status quo. Several factors make radical innovations more likely, which may include a growing *dissatisfaction and critique* – resulting both from unequal material endowments as well as from differing ideal convictions – of underprivileged actors of a given market regime and/or *external factors of change* and/or *market crisis*. The first point addresses internal dynamics, as critique

arises from alternative and conflicting conventions. Regarding the second point, there is a wide range of what we call “external factors.” These may include general changes of laws and regulations affecting the market (institutional change) and influences by other markets (like spillovers of conventions or crisis on complementary markets). Those three aspects are usually connected: Critique might gain momentum if external or internal crises shake the existing market regime. Emerging conventions (from other neighboring fields) might also be a stimulating factor for intensified critique. At the same time, critique might only start to form if opposing conventions arise or a crisis hits the market.

In addition, we used the empirical example of the Styrian wine market to make our point clearer. In the 1970s and early 1980s the wine market was characterized by the dominance of the market convention and the institutional underpinning of the convention. Low prices and the unprofitability of wine production caused much criticism of the status quo. Poor perspectives caused a group of young winemakers, supported by a charismatic *mentor*, to move out to the wine hotspots of Europe. Inspired by alternative techniques of the wine hotspots the clique started to make wine in quite different ways. However, despite of the unfavorable situation on the wine market, the young “wine revolutionaries” faced much rejection from the establishment, which invested heavily in the market convention. Not until the severe wine crises of the mid-1980s did the Styrian “wine revolutionists” gain momentum and were able to overturn the resistance.

The crises convinced most winemakers and intermediaries that something had to change fundamentally and significantly shifted the taste of Styrian wine consumers. To restore trust winemakers shifted toward the domestic convention: by direct contact with consumers and the use of artisanal techniques winemakers increasingly distanced themselves from the former market convention, which caused the crises. In addition, the rising domestic convention was underpinned by a new wine law. Intermediaries like wine schools and a local newspaper also were pivotal for the implementation of the domestic convention. Hence several interconnected factors facilitated the radical innovation within the Styrian wine market: Young “wine revolutionaries” brought new techniques, as alternatives to the used once, to the region. Low profits and prices caused much dissatisfaction among winemakers. The wine crises accelerated and spread criticism and caused a widely shared agreement on the necessity of fundamental change. Intermediaries’ active support of the new market regime and consumers shifting preferences were also pivotal for the implementation of the domestic convention.

In the initial market convention, the fraud of some market participants is a crucial element of change. It illustrates that the theoretical concepts of justice and justification (Boltanski and Thévenot 2006) play an important role in the



process of the interpretation and evaluation of the qualities of things based on conventions. This is something that is usually difficult to show.

The empirical part shows how the previously derived theoretical heuristics of market regimes and the relation between institutions and conventions on markets can be expanded to include explanations of changing conventions on markets, primarily triggered by critique. We could show that markets are mostly stable and only occasionally change radically. However, it remains an open question to what extent our results apply to other markets as well. The Styrian market for pork for example, was hit by similarly severe crises but did not experience the kind of dynamics the wine market did. Nevertheless, the theoretical heuristics of the EC proves to be a robust framework for the analysis of market dynamics.

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