

Exemplary Goods: A Coordination Perspective

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I. Introduction

The price system is widely regarded as the ordering process of the market. Relative prices structure the decisions of individuals and allow people and organizations to economize on resources. Coordination between the actions of individuals is achieved through price signals that indicate the relative scarcity of goods and inputs. But the focus on the price system also leaves a central issue untouched, or perhaps assumes it away, how do individuals and firms come to understand differences between products in the first place?

The importance of distinguishing between different goods is already identified by Hayek, whose work has always emphasized the epistemological or cognitive aspects of social interaction. In the 'Meaning of Competition' he explicitly argues that the difference between goods and services might be as important as competition of identical products based on relative prices. Goods such as books, and personal services are all different from one another, Hayek argues. In such cases relative differences in *quality* rather than *price* is the primary difference between goods¹. He goes on to argue that the tendency of the economist to talk about distinct markets for separate commodities is largely due to the imagination of the economist and not a reflection of a real-world situation. But Hayek does

¹ Some of these goods, think of movie tickets, or new music recordings, are typically priced uniformly, making quality the only the only difference between these goods.

not offer a theory a full-blown theory of the way we distinguish and compare goods and the implications this has for our theory of competition (Hayek 1948, 99–100)².

Unfortunately we have not progressed very far in that direction, even though markets with a large number of unique goods have only become more common, especially in consumer and labor markets (Caves 2000; Karpik 2010). It might of course be argued that the differences between these goods is reflected in their market price. Higher quality goods have a higher price, and lower quality goods a lower price, but as an explanation of how market participants understand differences between products that does not bring us very far. When quality differences are simply translated into price differences this not only presumes that such quality differences are objective, or universally agreed upon, but also that they can be neatly separated from each other (Lancaster 1966). A cursory glance at the market for books, music, cars, movies, food or fashion should convince everybody that this is not the case. Furthermore any simple mapping of quality differences into price differences has been undercut by advances in economic theory analyzing situations of imperfect information and uncertainty (Akerlof 1970; Stiglitz 2002).

This paper argues that if we adopt a coordination perspective we can overcome many of the conceptual difficulties that exist if we stick to a sharp distinction between individuals with well-ordered preferences and goods with well-defined qualities or characteristics. Just like the price system is an order that emerges from the interactions of buyers and sellers, so we can think of an order regarding differences between goods and their qualities that emerges through human interactions. Between these two orders, the *price* and the *meaning* system, there are important similarities. Both enable informed decision-making by consumers and producers, both rely on signals and feedback within these orders, and both coordination processes involve a discovery procedure for both consumers and producers. Those similarities, however, are on a high level on abstraction. Little is known about this meaning system. Hayek argued that: “Competition is essentially a process of the formation of opinion: by spreading information, it creates that unity and coherence of the economic system which we presuppose when we think of it as one

² Some clues might be found in his psychological theory in ‘The Sensory Order’ (Hayek 1952), especially his connectionist theory of the mind, see also fn. 8.

market. It creates the views people have about what is best and cheapest” (Hayek 1948, 106). I think we know quite a bit about how we learn what is the cheapest through the price system, but we know far less about how we learn about the best. It is the purpose of this paper to shed light on one important aspect of that system, the role of exemplary goods.

This paper will argue that a first important step in that direction is to demonstrate that individuals and firms learn about quality and meaning from existing products. Just as consumers and produce compare relative prices, they compare relative qualities. No economist any longer believes that goods have some natural price or objective price, instead it is priced in relation to other goods, and it is to relative prices that we attach significance. But for some reason, our theories still presume that goods have objective characteristics with their own shadow price.

The proposition that we learn about the characteristics and quality of goods through our experience on markets is simple enough. But what is required is a theory of judgment that can deal with particulars, rather than general characteristics. The paper proposes that thinking about existing goods as exemplars will shed important light upon that process. The exemplary theory of judgement relies on information available in markets, and is therefore a type of ecological rationality (V. L. Smith 2008; Gigerenzer 2008). In contrast to existing economic theories of goods, which rely on more comprehensive and demanding notions of rationality and objective characteristics of goods. Exemplary goods, we will argue, have a coordinative role on markets, in the way that prices do as well, but the way in which this coordination takes place is also different in at least one important way. Where we typically think that the introduction of close substitutes will lead to a lower market price of the good, we will demonstrate that this tendency is counteracted by what we below describe as the association effect.

II. Exemplary goods

Exemplary goods are goods that signify some positive (or occasionally negative) quality. An exemplar is, as an old definition has it: “a pattern; an example to be imitated” (quoted in Needham 1985). The basic idea of the exemplary is that we learn through the particular

about what is desirable or what should be avoided. The concept of exemplars has a long, but patchy history. Its most important origin lies in the Christian tradition of ethics which has focused on moral exemplars, typically in the form of martyrs or saints (Bartlett 2013). In hagiographies of the lives of the saints different exemplary ways of living were held up as an example to live up to for monks and Christians more generally. The notion of the exemplary is also taken up by Kuhn in his theory of learning about a paradigm (Kuhn 1970). But the concept is most fully developed by Hannah Arendt. Arendt's theory of judgment – in which she develops a theory of judgment based on exemplars – emphasizes: “the faculty of thinking the particular” (Arendt 1982, 76). Pure thinking for Arendt is thinking in the general, it is thinking in rules, laws, regularities, and categories. Judging on the other hand is to consider the particular in light of the universal, but to keep in mind the uniqueness of the particular. This difficulty is even greater when, and here she quotes Kant: “the particular be given for which the general has to be found” (Arendt 1982, 76).

Exemplary goods are thus goods (or services) that are successful and therefore are imitated by competitors. The iPhone is the exemplary smartphone, in the same way that say Harvard or Cambridge is an exemplary university. These goods, or sometimes brands, teach us about something about quality, even when we cannot always fully describe or articulate what that quality consists of. Exemplary goods and practices contain tacit knowledge, that is often hard to codify (Polanyi 1958). Thus what a smartphone is and should be, has been discovered through the subsequent releases of particular mobile phones, which were considered to be exemplary goods at some point in time. But the exemplary is even more relevant, as we will see below, when a general category has not yet emerged.

It is important to see that this exemplary mode of reasoning is different from two other modes of reasoning. Arendt explains this by the ways in which we can think of a table. One could have in mind a list of characteristics to which every table must conform to qualify as a table. If we then meet an object we can determine whether it fits the requirements: a flat top surface placed on a number of legs by deduction. Secondly one could compare this particular object to the many tables one has seen in one's life, and by inferential judgment decide whether this too is a table. Thirdly one could: “think of some table as the example of how tables actually should be: the exemplary table. This exemplar is

and remains a particular that in its very particularity reveals the generality that otherwise could not be defined” (Arendt 1982, 72).

So she argues that if we are dealing with unique occurrences, such as in history, we have to consider those occurrences in light of the general, but keeping in mind that it can never be completely subsumed under any generality. There are also a great many cases for which a generality has not yet been found, and in that case we can, by definition, only compare certain particular occurrences to other occurrences. In terms of forming judgments about new goods we encounter, we can thus formulate a threefold distinction. Exemplars might be heuristics for certain general categories, the particular then stands for the whole, as in the literary style figure of the synecdoche (the whole is presumed to be known in this case). Exemplars might be preferable to the general in the sense that they emphasize the uniqueness of each instance in a way that the general category does not. Arendt gives the Holocaust as an example, which cannot or should not be reduced to the general category of genocide. But we also find this tension in product markets, when some advertisement or aficionado tells us that this is not just a phone, but an iPhone. Finally, exemplars might represent particular instances that contain some qualities that are not yet subsumed under a more general category. Below we will talk about category and genre formation, and an early instance of a yet to be defined genre could then be the exemplar that precedes the general category.

One more important observation about exemplars is that they illuminate an aspect of categories that other perspectives ignore; the gradedness of categories (Mervis and Rosch 1981; Barsalou 1985)³. Gradedness of categories means that not every member is an equally good example of a particular category. Some instances or examples are considered typical or exemplary of a category. A typical example of this finding is that that ‘robins’ are consistently considered to be exemplary birds, but penguins far less so. Such exemplars are learned faster by children, and play a crucial role in category formation (Lynch, Coley, and Medin 2000). Typically it is believed that exemplars possess this function because they represent a ‘central tendency’. But more recent studies have distinguished between a

³ Some of the early authors on exemplars noted the connection with family resemblances as described by Wittgenstein (Rosch and Mervis, 1975).

typical (central) instance and an exemplary instance. These sometimes overlap, but particularly when a notion of goodness is involved, as is often if not always the case for market goods, the exemplary tends to be close to some ideal, and thus far from the typical or central (Barsalou 1985; Lynch, Coley, and Medin 2000; Burnett et al. 2005). When we say that Frank Knight is an exemplary economist, we certainly do not mean that he represents some central tendency in what it means to be an economist, but instead that he embodies (some of the) qualities that we associate with great economists.

The emphasis on learning and tacit knowledge in Arendt's account of exemplars is also present in Thomas Kuhn's writings on the subject. Kuhn discusses exemplars as having great importance in learning what a paradigm consists of. He argues that exemplars are of crucial importance for *understanding* in science, and he suggests that through the use of exemplars we learn knowledge that can frequently not be reduced to explicit general rules (Kuhn 1970, 194).

III. Why market categories are not enough

Any introductory course, but even quite sophisticated applied papers, talk about markets as if they are distinct entities: the housing market, the market for pet psychologists, or the market for vintage Marvel comics. Implicitly it is assumed that these markets are well-defined entities, with clear boundaries, although most economists are aware that this is far from true. In certain instances we are reminded of this fact, defining a firm's market share confronts us with difficult boundaries issues of which firms and which of their products to include. And even if boundaries are somewhat clearer, the relevant neighbors to any market will depend wildly on local circumstances: boats are a decent substitute for walking in Venice, but a pretty poor one for those seeking transportation in most other cities. While for some goods we do not know whether they are substitutes or complements: do illegal music downloads cannibalize or enhance attendance at live concerts? Even the introduction of a new type of good might alter the relationship between two existing goods.

We could turn to empirical estimates of cross-price elasticities, but if taken seriously this would probably preclude any study of markets beyond the very local and time-dependent. We would simply not know where to start with the wide variety of goods in our

modern economies. And even so, boundaries would not naturally emerge, instead we would probably discover the way in which there is an extended network of goods with complicated interrelationships. Matters would get even further out of hand if these relationships appear radically different for different individuals. So not unless we, like Hayek presume that the market process: “creates that unity and coherence (...) which we presuppose when we think of it as one market,” does it make sense to speak somewhat more generally of neighboring markets (Hayek 1948, 106). But a presumption only takes us so far, we should also be able to analyze the way in which this unity and coherence is created. For the ‘economy as a whole’ this might be achieved by an integrated price system, but for distinctions between markets it will require the investigation of how coherence and unity is achieved, it is here that the meaning system of coordination is crucial.

Any comprehensive treatment of these matters, is beyond the scope of this paper. But the same type of coordination processes that we associate with the price system, govern the meaning system, which structures markets and the relations between them. One important difference is that while prices typically continue to fluctuate (although in mature markets they might reach a relatively stable level), meanings typically tend to be stickier.

Understandings once established tend to structure markets for longer periods of time. The first stage of new markets, or disruptive periods are thus important to study, if we want to examine the meaning system. The importance of the early stage, is for example, evident from eponymous market categories, categories named after their first exemplary instance, such as: onesies, jeans, the jacuzzi, and the jeep. Rosa and her co-authors show that this is only an example of a more general phenomenon, the fact that new products are frequently marketed with reference to the first, or exemplary good of a kind (Rosa et al. 1999). Over time we expect, if the good is successful that a category name emerges, so that goods can now be understood as part of a group or genre.

That is the first reason why a reliance on existing categories creates too static a picture of modern markets. But even if such categories have emerged, however, exemplars remain important because they structure the grading of the category. In other words they structure which goods are considered good members of the group, and which are on the periphery. Such grading and categorization can be very fine, think for example of French

wines. Within these fine substructures we might find a multitude of different exemplars. For some goods, of which authenticity is one of the most important characteristics, category membership can be an all-or-nothing issue, a painting is a Rembrandt or it isn't, a multi-million dollar difference. Within Rembrandts, in turn, there are exemplary paintings that structure the way in which Rembrandts are valued. The gradedness of categories is the second reason why we cannot rely on existing categories alone in understanding the meaning structure of markets.

Thirdly, the existing meaning structure obscures the acts of entrepreneurship that have made the fine-grained differentiation, that modern markets rely on, possible. These acts of entrepreneurship have not just introduced new products to us, but also the way in which we should understand them. It is in this process of mutual coordination that entrepreneurial acts by consumers have often played an important role, next to that of producers. The introduction of new products, and why they have value, by producers, is often transformed, enhanced or rejected by consumers. A particularly striking example of this, are perhaps the q-tips, the ear-sticks which have widely been shown to be dangerous for cleaning the inside of the ear canal, but have found a thousand-and-one other uses in the bathroom and around the house.

The fourth reason, and in my eyes, the most important, why we cannot rely on existing market categories is an economic one, and is related to the three before. In economics we emphasize the distinction between ex-ante and ex-post, particularly in talking about investment and consumption plans. What is known ex-post should not be confused, or used to criticize, the decisions that were made ex-ante. The market process is a discovery process, at least in the very real sense, that knowledge becomes available in the process that was not known beforehand. Let me illustrate that importance with a small intermission.

Intermission: The producer and the critic

To demonstrate the importance of the limitations of our knowledge for thinking about goods and categories of goods it is helpful to look at a particular example. Here we will look at the market for movies. The distinction between the perspectives of constructivist rationality that takes as its starting point perfect information and deviations from that ideal, and that of ecological rationality that takes the environment and a

more limited rationality as its starting point, is well captured by the difference that Altman draws between the critic and the producer.

The critic's job is backward looking in nature, he evaluates films in hindsight. So if the critic wants to write the history of a genre such as the biopic, he can assess all the films that are said to belong to that genre, from which he can form a general description of the genre, on the basis of which he can establish definitively which films do, and do not belong to the genre. The producer's job on the other is forward looking in nature, he can identify successful films, but does not know with any certainty what has made these films successful. Instead he engages in a process of trial and error based on the interpretation of past successes. Altman illustrates that with a case study of the biopic-genre (Altman 1999).

When Warner Bros. produced the film 'Disraeli', about the British politician and author, they were 'simply' adapting a successful musical and earlier silent film into a new film. The film, released in 1929, starring George Arliss, who had also played the lead role in the silent film and the musical, went on to become a great worldwide commercial success. It attracted around 170 million viewers in 29,000 theaters over the following years. Warner Bros. and other film studios were therefore eager to imitate its success. But this posed the problem of figuring out what had made the film so successful in the first place:

What does the film have that might be worth imitating? In 1929, Warner Bros. saw *Disraeli* not as a biopic – a non-existent category at the time – but as a film whose success was due to its primary emphasis on British history, political intrigue and international strife, with secondary attention to financial concerns, Jewishness and expansive speech-making, plus perhaps a nod to director Alfred E. Green and the film's stage-play source. (Altman 1999, 40)

What is strong in Altman's analysis is the he recognizes that for Warner Bros. at the time the commercial success had to be interpreted. And they had a wealth of interpretations to choose from: the subject matter of the film, the quality of the actor George Arliss, the quality of the direction by Green, the strength of the scenario, a proven success in the musical, etc. This is not just clear from Altman's analysis but also from the subsequent releases of Warner Bros.

Shortly after the success of *Disraeli* Warner Bros. produced three other 'British' films, *The Green Goddess*, starring Arliss again, the more comedic *The Man from Blankley's*, and *Sweet Kitty Bellairs*, again directed by Green. All three films were based on earlier stage plays or musicals. But the success of *Disraeli*, was unmatched. Warner Bros. then attempted to drop the musical and romantic aspects in favor of more financial and Victorian subject matter in *Old English*, again with Arliss and directed by Green. The film was a big success and was soon followed up by another financial adventure starring Arliss, called *The Millionaire*. Soon after followed up by Arliss in *Alexander Hamilton* without the British flavor, but with the political intrigue and the biographic treatment of one character. As Altman makes clear, in retrospect we tend to jump from *Disraeli* to *Alexander Hamilton*, and recognize them as early examples of the biopic. But that misses the trial-and-error and the repeated iterations of interpretation of the success that was involved in attempts to

imitate the success of *Disraeli*. As well as the alternative interpretations that could have been, and to some extent were successful, and could thus have laid the foundation for other genres in turn.

Once again Altman is very aware of these contingencies. He points out that *Alexander Hamilton*, was not marketed at all by Warner Bros. as a kind of sequel to *Disraeli*. Instead it was presented as an American historical movie, one that notably included a scandalous affair. And that was indeed how Warner Bros. followed up the success of *Alexander Hamilton*. So as Altman concludes: “not even the simplest description of a film holds up throughout the game, because each new film undermines our previous understanding” (Altman 1999, 41).

Market success is an important heuristic in this story, especially initial market success, because a new film has to be produced quickly. But the more important process is the interpretation of that success, what was it about a particular film that made it successful? *Disraeli* as a film has an enormous amount of characteristics, characteristics that are interdependent furthermore, and so what are the characters, the qualities that should be imitated and in what combinations? As Altman argues: “the [biopic] genre was not created until multiple studios, repeatedly replicated specific biographical elements of earlier films” (Altman 1999, 43). His description of the emergence of the biopic genre clearly demonstrates the importance of the exemplar of *Disraeli*. But it also demonstrates that exemplars have to be interpreted, and that meaning is coordinated in repeated iterations of a trial-and-error process of meaning-creation. It highlights the extent to which our analysis of markets relies on categories and characteristics that are in fact the outcome of market processes.

McCloskey has once compared the role of the economist looking at the business world to that of the “critic looking at the art world” (McCloskey 1994, 73). While that characterization is true in the sense that our analysis of market processes is primarily back-ward looking, our theorizing should take into account that economic decisions are always forward-looking. Hence the decision-maker, whether the consumer or the producer, cannot rely on ex-post market categories or genres⁴, but instead relies on his or her knowledge of particular goods, and interpretations of exemplary goods.

Altman’s study also demonstrates the feedback process that markets provide. Although the process that he describes is more complicated than just reading the profit and loss statement. The market success of *Disraeli* has to be interpreted by the film studio, they have to understand why the film was successful. And the subsequent releases provide a

⁴ As Jones and his co-authors point out when they write about the establishment of the category of ‘Modern Architecture’: It is important to note that the categorization by GreatBuildings.com, being retrospective, identifies ‘modern’ exemplars before ‘modern’ as a category was socially recognized by architects and relevant audiences” (Jones et al. 2012, 1527).

glimpse of the various hypotheses that they entertained. Although highly visible in the movie market, a similar process, underlies the interpretation of the success or failure of any product. When a firm makes losses, that does not necessarily mean that its product is bad or of no value: the problem could lie in marketing, in the pricing strategy, in the delivery of the product, the mix of characteristics, or any other minor mistake⁵. This is particularly true for innovative products, which deviate in a variety of ways from existing products. Or as Langlois and Cosgel argue: “the economic problem of production becomes a coordination problem: discovering — or, rather, helping to create — an interpersonally shared structure of transaction” (Langlois and Cosgel 1998, 112).

IV. Two steps in the right direction

Much of modern economics is still based on the Lancaster’s theory of goods, which assumes that goods are bundles of objective characteristics, and relations between goods are determined by the overlap or lack thereof in terms of these characteristics (Lancaster 1966; Lancaster 1971). Some economists are coming to recognize the importance of categories and standards in the functioning of markets⁶. Nobel-laureate Alvin Roth, in his work on matching markets, shows a great awareness of the importance of categorization and grading structures in the functioning of market processes. One of the markets that Roth discusses is the wheat market of the mid-nineteenth century. This market was characterized by much uncertainty about quality and provenance of the wheat, until the Chicago Board of Trade implemented a uniform grading system in 1848. Roth offers little discussion of disputes about this grading system at the time, but the outcome was that: “over time, buyers would learn to rely on the grading system and buy their wheat without having to inspect if first and to know whom they were buying it from” (Roth 2015, 16). The commodification of wheat, in the sense of the creation of a standardized product, made the market thick, and cut down on a variety of transaction costs. The ‘number 2 hard red winter wheat’ that Roth refers is one grade of wheat, which through the grading system is

⁵ In that sense producers might be said to face something akin to a Duhem-Quine problem.

⁶ This is particularly true for the French school of economics of conventions, for an overview see Thévenot (2002).

related to other types and qualities of wheat. What Roth fails to discuss is how these categories emerged, and how certain types of wheat became exemplary types, or focal points. So while he recognizes the importance of categories, he still takes them as given.

Roth is, however, aware that such ‘types’ or categories of wheat are important in the overall coordination process of the market. In another example, he demonstrates how a grading system for Ethiopian coffee influenced the harvesting process (Roth 2015, 18). While before hillside were typically harvested at once, the grading system provided incentives to be more selective in the harvesting process. This demonstrates how exemplars and categories coordinate the actions of consumers and buyers in a process of mutual adjustment. The grading, and this is important to see, does not only make a particular type of coffee a standard and a focal point, but the grading system settles the important differences between the grades of coffee. In a similar manner as movie genres highlight particular similarities (and differences) between films at the expense of others⁷. In most coffee grading systems this involves the bean’s origin, the size of the beans, the amount of quakers (unripe beans) and the frequency of defects. But to qualify as specialty grade coffee bean the beans also have to exhibit a distinct attribute in taste, acidity, body, or aroma. So that coffee grading systems are a mixture of minimum requirements (industry norms) and distinct differentiating qualities, with particular exemplary qualities⁸.

Within the Austrian tradition there is more awareness of the market as a discovery process and the importance of interpretation of the signals and information that markets provide (Hayek 1945; Lachmann 1978). But even within the Austrian tradition categories are frequently taken for granted, instead of considered central to the coordination process. In an otherwise interesting article Roger Koppl and Richard Langlois⁹ argue that

⁷ This is, an important step up from Lancaster’s argument that “any good possesses an enormous number of physical properties: size, shape, color, smell, chemical composition, ability to perform any one of a variety of functions, and so on. Because not all properties will be relevant to choice, we shall henceforth use the term *characteristics* for those objective properties of things that are relevant to choice by people” (Lancaster 1971, 6).

⁸ Aoki argues that a similar concern with classification and the differentiation among goods is central to Hayek’s psychological theory: “One of the basic ideas [The Sensory Order] in the book was that the essence of psychological process and knowledge as its outcome lies in the ‘classifications’ of perceived physical events in one way or another through the network of neurons” (Aoki 2011, 24). It is also at the heart of much of the work in economic sociology on commensuration (Espeland and Stevens 1998).

⁹ I rely here on the account by Koppl and Langlois, which I regard to be the best in its kind, for a comparable argument, see Langlois and Cosgel (1998).

consumption is a skillful action that relies on rule following. These rules help us understand what a product is:

Even the most novel action is recognizably similar to previous examples in its class. Picasso's *Les Femmes d'Alger (O.J.)* of 1907 is sometimes considered the first cubist painting. It is novel and creative. It was a radical innovation, but in 1907 it was already recognizable as a work of art. The painting followed the old rules closely enough to be understood. Every face had the expected number of eyes (one) on each side of the nose.

(Koppl and Langlois 2001, 289)

Although Koppl and Langlois recognize the importance of classification, and the problems this might pose, their analysis relies on the idea that the important cognitive categories are shared by the relevant actors. First of all, even though recognized the painting was recognized as a work of art by Picasso's peers, '*Les Femmes d'Alger*', was also denounced as a scandalous work by many, since its subject matter is a group of prostitutes. And while certainly considered as novel and creative by some of Picasso's contemporaries none of them, with the exception perhaps of Georges Braque, could have foreseen that it would spark a new genre within painting: Cubism. That evaluation could only be made later, in light of the development of other paintings that shared certain qualities with '*Les Femmes d'Alger*', which became known as the conventions of Cubist painting. What these conventions would be, was by no means clear, '*Les Femmes d'Alger*' most striking feature is its subject matter (nudes), a subject matter that was largely neglected in later Cubist paintings. In many ways 'the rules' to which Koppl and Langlois refer still had to emerge. It assumes to be known, what is discovered in process. This is by no means trivial, for somebody thinking about acquiring the work at the time, certainly needed to know more than: 'this is a painting done by Picasso'.

The reference by Koppl and Langlois to the physiognomy of the women (one eye on each side of the nose) reads like it must be intended ironically, for nobody had seen women that were as disfigured, as these were, before in painting. Their claim that even the most novel action is always recognizable as one of its class seems, also, to claim far too much.

Many actions and goods go unrecognized (we do not know how to classify them), while other actions and goods are misunderstood (they are misclassified).

As argued above, it might even be true that a clear class of actions has not yet formed so we find it hard to interpret the action. Sure we know that 'Les Desmoiselles' is a painting, but only with the benefit of hindsight (and some cursory art-historical knowledge) can we now say that it is a Cubist painting, or a Picasso painting. Although, as argued above, the relevant knowledge might be whether it is also a good Picasso. Which brings us to the final observation about this case, every action or good for that matter, can be categorized in a variety of classes, and one of the most important acts of interpretation is to evaluate what the most important or relevant categories or exemplars are. 'Les Desmoiselles' is for example also rectangular and primarily pink, but this knowledge is far less important in our evaluation of the painting (at least as we currently value it). Cubist painters, in fact, were important in challenging existing conventions which emphasized craftsmanship, and helped establish new ones which favored style as the predominant convention for evaluating works of visual art. A study of categories, and how they emerge through exemplars, thus helps us figure out which rules individuals follow, and why they do so. To argue that the rules are already in place is, again, to reason the coordination problem away.

V. Exemplary goods: some illustrations

If we believe that exemplars fulfil this important role in the trail-and-error process of market discovery, we might wonder how we trace this. The introduction of new goods on a market provides a logical starting point. But there are some markets in which every new product which comes on the market is by definition different: the cultural or creative industries. Every film, music album, video game, painting or fashion line is by definition different from the previous ones. And each good thus has to be positioned in relation to other goods.

To demonstrate the exemplars in such industries I will use data from a broader dataset on the use of exemplars in NYtimes film reviews over the 1945-1980 period. Rather than focusing on the overall patterns, I will highlight the different uses of exemplars through the way in which François Truffaut, a French film director, is used as an exemplar.

While general patterns are important for the study of movies during this period, our purpose here is to introduce some important theoretical distinctions in the way in which exemplars are used in comparing different films.

Truffaut and his films, most importantly *400 Blows*, is one of the most important exemplary goods in the dataset. His work was important in the formation of modern arthouse or European filmmaking, which is stressed in the following exemplar: “[*Toni*] is such a little classic that film descendants of Renoir—Rossellini, for example and through him Truffaut and Godard, who worked with him—sometimes refer to themselves as the children of Toni”. While this exemplar is unclear in what makes ‘Toni’ such a special film, its quality remains implicit, it demonstrates a primary *function* of exemplars, the association of distinct goods. Exemplars associate particular goods, or their makers, and this association suggests that they share qualities or merit.

This general association between makers or films is important, but more common is the use of exemplars to indicate overall qualities of the film, or more particular qualities of the film. To give an example of an overall quality exemplar: “In its implications [...] *Kes* is a tragedy, as classic and inevitable as Francois Truffaut's *400 Blows*”. And while this exemplar at the same time refers to a more general category, that of tragedy, that is not always the case: “The only thing in films at all like this record of Jamie's growth is Francois Truffaut's Antoine Doinel series”. Here we clearly see that a comparison is drawn between films, which cannot yet be subsumed under a more general category. The Antoine Doinel series, of which *400 Blows*, is the first installment, follows the maturation of the same character at great intervals, in the way that Michael Apted's UP-series have done, and the more recent film *Boyhood* does. Here no category has formed yet, but filmmakers are imitating the qualities of a film that was successful (whether artistically, financially or both). A similar use of an exemplar is found in the review of *Two English Girls*: “In many ways, however, *Two English Girls* is more closely linked to such later (and dissimilar) Truffaut films as *The Soft Skin*, *Mississippi Mermaid* and *Stolen Kisses*”. Here the exemplar, late Truffaut films, is intentionally vague, and meant to demonstrate a general likeness that we are not able to pin down yet, but we are able to recognize. In that sense, the interpretation of exemplars is one way of attempting to make tacit knowledge somewhat more explicit.

Most exemplars, however, are more specific than the general ones above, they highlight specific qualities that goods share. A good example of that is found in the review of *The Man who Loved Women*: “The flashback to Bertrand's childhood (...) suggests the young Antoine of *The 400 Blows*, while Bertrand's funny, sweet encounter with a little girl he finds crying on a stairway recalls the Antoine of *Love at Twenty*”. But, frequently such comparisons are accompanied by a contrast: “The subject is pure Truffaut, but the point of view depends upon a degree of even-handed detachment that Truffaut would never in his mildest dreams muster toward the most neutral stranger”. Or: “*Stolen Kisses* is as humanistically complex as even *Shoot the Piano Player*, though more classically ordered in form”. Highlighting particular qualities that films share serves an important role in graded categories, because the exemplar is the reference point for how that characteristic is best executed. The contrasts then serves to illuminate the difference, the unique, the particular, but only after the good in question has been associated with the relevant exemplar.

Sometimes the exemplar is only used to draw a contrast, and the purpose is that of disassociation. Although the theme, the style, the actor or the director is the same, the film is not at all of equal standing: “Delphine Seyrig walks through the role of Kristine as though she yearns to be back in a luxuriant comedy by Truffaut or Bunuel”. Or: “At the outset (unlike Francois Truffaut), director-scenarist Wolfgang Staudte makes a mistake by telling his story from the view of some hovering adults”. In other words, although both films are members of a particular category, or share certain characteristics, the exemplar is used to emphasize the gradedness of the characteristics, or category, and to emphasize the gap between the positions of these goods within the respective category.

The gradedness of categories is, as we see, of particular importance. We cannot define with any precision which criteria a film must meet to be convincing, moving, or shocking, but we know particular instances of convincing, moving and shocking films. The exemplary goods serve the function of being instantiations of quality, even though we cannot say with much precision what quality consists of. In that sense quality of films, and many other goods, is like virtue. We can recognize virtue, in most cases, but we cannot fully (or even partially) specify what virtue consists of explicitly. As Adam Smith argues: “The norms of attainment of what is sublime and elegant are loose, vague, and indeterminate,

and present us rather with a general idea of the perfection we ought to aim at” (Smith 1776/1984, 175–176).

Another aspect that exemplars highlight is the plurality inherent in our notion of quality of films. In the thirty exemplars of Truffaut and his films, we find many different aspects which are praised. If we just look at the positive terms associated with either his work or the work which is compared to his, we find an long and diverse list: lyricism, humanistically complex, classical ordered, minimal, pure Truffaut subject, even-handed detachment, clinical understanding, classic, inevitable, pleasant, comforting, hard-hitting, funny, sweet, lacing pathos with slapstick comedy, luxuriant (see also Dekker 2015). In the next section we will return to the way in which these qualities are *discovered* in the market process.

The crucial role of exemplars in the market process is the way in which relations are established between different goods. Here we have explored only relationships between films, but the study of exemplars in film reviews demonstrates that such relationships are also made between films and other goods. Film characters are repeatedly compared to the cartoon character Caspar Milquetoast, one film to a McDonalds tv-commercial and one review manages to compare the qualities of the film under review to Don Quixote and Oliver Twist (novels), La Dolce Vita (the film), El Greco (the visual artist) and Rabelais (the humanist). Association, and its opposite dissociation, thus happens not only within categories, but also between categories.

The relations between particular goods and types of goods can be of many different kinds, but we have explored several here: a generic and relatively neutral reference (has worked with, has previously made or played in), an association between goods that emphasizes the overall or particular quality they share, an associative contrast that links two films as being similar in some respect, but different in another, and the contrasting relationship that seeks to dissociate goods from one another. That general framework can be extended to include a wider variety of relationships, but for our purposes here this broad differentiation will suffice.

The study of exemplars in film reviews, which are of course not the only or even the typical way in which films are received, we get important insights in a process that is usually obscured: the linking of particular goods as possessing similar qualities or

belonging to a same category or type and the discovery and formation of new qualities and categories. This is an active coordination process between producers and consumers of films. Film producers will frame the product in a particular way: in relation to an earlier film, by its genre, its stars, its director, its special effects, or its relation to some original source (based on the best-selling novel). Consumers, and critics, will recognize these relations, add new ones, and ignore others. But it is in this process of mutual coordination that new films are produced, and older ones reinterpreted and categorized that (partially) shared understandings emerge of the quality of particular goods and the qualities of a particular category of goods. That is, however, also the point at which a crucial distinction arises between the meaning and the price system.

VI. Substitution and Association

One of the most important observations that follows from the examination of the meaning system of markets, is that categories group goods. Exemplars are a case in point, they link two or more particular goods, but categories do the same for a greater (and potentially unlimited) group of goods. A film is a Western, a whisky is a scotch, a book a detective story, a personal service is management consultancy or strategic advice. By ascribing goods to a category, marketing them as such, interpreting them in a particular way we value them. We judge what qualities they have in common with goods we already know. As Barbara Smith in a different context argues:

Not only are the objects we encounter always to some extent pre-interpreted and preclassified for us by our particular cultures and languages, but also pre-evaluated, bearing the marks and signs of their prior valuing and evaluations by our fellow creatures. Indeed, preclassification is itself a form of preevaluation, for the labels or category names under which we encounter objects not only, as was suggested earlier, foreground certain of their possible functions but also operate as signs—in effect, as culturally certified endorsements—of their more or less effective performance of those functions.

(B. H. Smith 1983, 23)

This means that value is at least to some extent shared, and mutually reinforcing. If you write an academic paper, and *academic papers* is a category of cultural endorsement, then by grouping it as such it is assigned value. But if academic papers are going down in quality or status, you might not want to be classified as such. In economic terms, the classification functions as a kind of brand, a certifier of quality. And that brand has value for producers of that kind of good, and they will seek to protect that value. New entrants on the other hand are able to profit from the existing brand value, your work as an economist is worth more, because of the reputation of economics your predecessors created. Kennedy and his co-authors have appropriately called this ‘category currency’ (Kennedy, Lo, and Lounsbury 2010).

This association effect has a variety of economic implications. Firstly the decision to link a new product to an existing category, or to attempt to construct a new one is an economic decision that depends on the relative value of the existing category as well as on the relative costs of the creation of a new category (and its expected value). Sometimes categories are relatively neutral, if I tell you I am introducing a new type of food, I might stand to benefit little from the value of the category of food. If on the other hand I am promoting my new type of organic or superfood, I might stand to gain from the value that is associated with these categories. They are a type of commons, and might suffer from the problems associated with the commons. The same is true of the construction of new categories, as Jason Potts points out (Potts 2012).

Secondly, the association between goods in terms of quality undercuts some of our basic economic intuitions about substitution. If we classify something as a Rembrandt this increases its value enormously, although in traditional economic terms we are only pointing out the relevant substitutes¹⁰. One might counter that this is an (almost) objective characteristic, not a categorization. But, much the same is true if I argue that something is a Cubist painting. Such classifications will tend to decrease the price-elasticity of demand, even though traditionally we would argue that if something has close substitutes the sensitivity to price changes of demand would go up. The net-effect of the association effect

¹⁰ If we would use Lancaster’s framework the characteristics that this particular painting now shares with others has gone up, and it is thus easier to substitute.

and the substitution effect will vary, sometimes the substitution effect will dominate, in other cases the association-effect. But at least during the stage of category formation, we expect the association effect to be strong, as suggested in the study of Rosa and her co-authors cited above (Rosa et al. 1999).

In fact in the arts, from which we have drawn many examples in this paper, the association effect is frequently visible in terms of movements. New goods are not introduced by single individuals, but accompanied by interpretive schemes (artistic manifestoes, critical interpretations), and by groups of producers. François Truffaut, to return to our earlier example, was part of a group of critics who wrote for the Cahiers du Cinema. In which they put new forward new interpretive schema, the most famous of which is the auteur theory, which suggested that the director of the movie was similar to the painter or the novelist, in providing the unified artistic vision of the film. Many of these critics, including Truffaut, Godard, Chabrol, Rivette and Eric Rohmer also made their own movies, relying on some of the qualities they had praised as critics. But the success of a new category is dependent on how it is perceived by others. As one of the NYTimes critics writes: “*Le Viol*, an almost typical example of the kind of movie a Cahiers person is likely to make (I’m excluding the workds of Truffaut, Godard, and Chabrol, who are original filmmakers)”. If a negative value becomes associated with a category, producers will want to dissociate themselves from it.

In other industries such association is not always as visible, or even forbidden by law (as cartel), but similar dynamics must exist around the introduction of new goods. And hence the same tension between accepting current categories and interpreting schemes or shaping new ones will come up. Do firms compete with better quality on the currently accepted understanding of a good, or do they challenge the way in which these goods are understood? In the computer market the wide variety of ‘books’ is an example of this: the notebook, the minibook, the netbook, the ultrabook have all at some point competed for some category currency. To most consumers the products have remained smaller and bigger versions of the laptop. The tablet on the other hand has become accepted as a rival market category. This means that to a certain extent, producers can thus also choose their competitors. Does a new car producer promote the new model as a spacious model of the city-car, or a small model of the sedan? And do consumers interpret the qualities of the

good, in that way, or do they produce rival interpretations? In that sense meanings are mutually coordinated and discovered in the interaction between consumers and producers. With the addition, that in many markets intermediaries of a wide variety, critics, marketers, early adopters, promoters and the like, play a prime role in the mediation of this discovery process (Bessy and Marie Chauvin 2013).

VII. Concluding Remarks

This paper has explored the way in which exemplary goods help structure the meaning system of markets, in doing so it has drawn parallels with the price system which is generally understood to order markets. These two ordering systems are complements, and within mature markets the price-system will be the most prominent. In such markets economic calculation based on relative prices is possible because problems of commensuration and classification have been (temporarily settled). But in this paper I have showed that in changing or new markets the meaning system can be of greater importance. In such situations interpretation and classification are central¹¹. This can have important consequences for the way in which the price system operates, as has been suggested in the final section with the distinction between the association and the substitution effect.

The more general theoretical problem which this paper raises is how we distinguish between different goods, and how that impacts the way in which we interpret them. I have demonstrated that exemplary goods play an important role in the mutual coordination between producers and consumers. For producers they are a guide as to what the best products in a market are, and what qualities are valued by consumers. For consumers they are a guide as to how they should understand the qualities of particular products. As such the exemplary goods can be thought of as focal points, around which market participants coordinate. Although little explicit attention has been paid to market intermediaries in this paper, it follows that intermediaries are an important influence on the way in which new goods are interpreted and linked to existing goods. Their role deserves further exploration.

¹¹ Thévenot argues that this is more generally the case: “if we agree that the coordination of human action is problematical and not the result of laws of nature or constraints, we can understand that human rationality is above all interpretative and not only or immediately calculative” (Thévenot et al. 2005, 21).

By emphasizing the importance of exemplary goods, and the coordinative role that they play on markets, we are able to avoid the objectivist approach that still dominates the economic theory of goods. Instead qualities of goods are discovered in the interaction on markets, which generate signals, which in turn need to be interpreted, as we saw in great detail for the film *Disraeli*. The intersubjective notion of quality that emerges helps create, the forever imperfect, 'coherence and unity' of markets that Hayek suggested was necessary for the study of markets. That coherence, it should be stressed, is primarily cognitive, it depends on the way in which we understand exemplary goods and categories that structure markets. It is not caused by the objective characteristics of goods, or a pre-existing set of well-ordered preferences of consumers, instead it is the result of a process of mutual coordination.

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