



The configuration of a status based model of economic actors: The case of Spanish government debt market



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ABSTRACT

This paper analyses the social structure of the government debt market in Spain from a social network analysis approach. The relational analysis has been limited to the case of the syndicate issuances that took place between 2002 and 2015 and the process whereby lead manager banks choose their partners to underwrite the issue. The main contribution of this paper is the identification of social tie patterns between market participants and their structural equivalence in the market. Furthermore, it reveals how status operates in the market, conferring advantages on those actors with optimum positioning.

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1. Introduction

Economic sociology has been long interested in the problem of what Granovetter (1985) called the “embeddedness of markets”. During the seventies and eighties, various scholars have demonstrated that economic actions are embedded within networks and in concrete and ongoing systems of social relations (White, 1981). Similarly, social structure is conceptualised as a series of social relationship networks; a set of regular interactions among individuals or social groups that form a particular market structure in which the notion of status constitutes a central element. Status can be defined as a position within a social structure that confers prestige and privileges upon an actor according to ascribed and achieved criteria. Actors’ position in this hierarchy affects others’ perceptions and actions towards them and thereby the opportunities and constraints they face in the market (Jensen, 2008; Jensen and Roy, 2008; Podolny, 1994).

The objective of this paper is to examine the status hierarchy of market makers in the Spanish public debt market. More specifically, this paper analyses the process whereby market participants collaborate in syndicate bond issuances and the consequent emergence of a particular structure of influence and prestige positions that are consistent and stable over time. Syndicated public debt issues are specific formulae to sell public debt in

the market and an alternative to ordinary Treasury auctions. In the case of syndicated issuances the Treasury issues a new bond and in order to sell it, hires a small group of investment banks that receive direct instructions from investors wishing to acquire Spanish debt. In addition to this select group, other banks are involved as co-leaders. They are selected by the former in order to underwrite the entire issuance. In the light of recent difficulties experienced by the governments of Spain and other peripheral Eurozone countries to access market financing under economically sustainable conditions, syndicate issuances are playing an increasingly important role in financing the government deficit, thereby generating public debt. Our analysis identifies the social structure and the sequential aspects of this type of bond issuance that is highly significant in terms of the monetary amount auctioned.

The article offers a comprehensive analysis of the Spanish public debt market structure and public debt ownership within world financial sector. It provides crucial yet hitherto unavailable evidence for relational data about status positions of financial corporations in the public debt market, and its relations with the ownership structure of the public debt. In analysing the social status of the Spanish public debt market we are reconsidering Marx’s notion of a financial aristocracy (1994 [1867]), which in this case refers firstly to a number of financial institutions that dominate access to and the conditions under which the State accesses market financing and secondly to the steadily growing concentration of government debt ownership among a small number of creditors. In contrast to more recent studies into government debt markets (see Hager, 2015; Lemoine, 2013), this article provides a breakdown of

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the details of the participants in this market and public debt security holders.

The accumulation of government debt in OECD member countries has acquired an unprecedented significance in the social, economic and political spheres of advanced capitalist societies. Indeed, the concept of the 'debt state' reflects a process characterised by the steady rise in government debt that began in the 1980s in all rich capitalist democracies. This situation requires a review of the micro-mechanisms employed by states in order to finance their deficit, as posited in this article.

The case studied in this article is relevant for the following reasons. Firstly, Spain's government debt market follows a pattern that in general terms is similar to other European countries, the result of process of convergence in operations and the types of securities exchanged (Blanco García, 2015). Specifically, the syndicated process shares similar patterns in Europe and the rest of the world (Lemoine, 2013; Francke et al., 2012; Podolny, 1994). It can therefore be claimed that the case under study is representative of all European countries. Nevertheless, and drawing on MacKenzie (2009), there is a need for comparative studies that highlight the diverse nature of government debt market institutional and technological structures and their impact on state financing systems. A further aspect for consideration, as explained later, is that government debt markets have varying degrees of financialization depending on the nature of actors participating therein and the breakdown of their micro-structure (Hardie, 2011).

Secondly, the relevance of the case under study also stems from its innovative nature and the lack of research carried out in the fields of Sociology, Political Science and Law into government debt market micro-structures that shed light on the participating nodes and the way their relationships are structured. In this sense, we believe that this paper can contribute to revealing the suitability of social network analysis as a means of assessing syndicated issuance mechanisms, which, although they remain relatively scarce – despite the key contributions of Podolny (1993, 1994), Baum et al. (2005) or Li and Rowley (2002), offer an insight into the relational patterns of influence and prestige shown by financial institutions on public debt markets, as well as financial markets in general.

Thirdly, identifying a social structure for the government debt market, defined as the presence of regular patterns in relationship (Wasserman and Faust, 1997), and its impact on the par amount acquired by each actor, provides a description of how the market works, moving beyond the principles of neoclassical theory and its efficiency model. Indeed, the article describes a market segmented by status positions that allows for the comparative advantage of the most favourably positioned actors in terms of access to debt in conditions that are clearly more beneficial.

The main thesis of this article is that the issuance network models the advantages of the key participating actors in accordance with their structural social position. More specifically, we have examined two hypotheses that operationalise the so-called Mathew Effect (Merton, 1968), whereby actors with higher status obtain greater recognition and reward for performing a given task, whilst lower-status actors received correspondingly less.

The remaining of this paper is organised into six sections. Section two offers a general theoretical framework for status in markets and financialization of public debt markets. A specific analysis of the mechanisms of syndicate issue and a presentation of the case is introduced in section three. Section four introduces the methodological design used to undertake a longitudinal analysis of status positions in financial markets from a relational viewpoint, using Pajek software. This is followed by the calculation of the various status measures to prove the convergence of the results and the validity of our hypotheses. The paper concludes

with a discussion of the major findings and directions for future research.

2. Theory and hypothesis

2.1. The notion of status under discussion

Status is a central concept in social stratification theory. According to Weber (1987), status denotes the relative position of an actor in a publicly recognised hierarchy of social worth. Parsons (1951) went on to define the concept of "status-role" as a position within a social structure that confers prestige and privileges according to ascribed and achieved criteria.

This article considers a relational conception of status applied to the understanding of financial markets performance. Likewise, and as shown below, the article is based on a conceptualisation of markets as social structural patterns that emerge from the embedded interaction of social actors (Baker, 1984). The idea of markets as roles' structures was introduced by White (1981) in the eighties. Swedberg (2003, 2005) considers White's research on markets (White, 2002) to represent a bold attempt to create a totally new and totally sociological theory of markets based on the notion that markets are embedded in social networks. In his most recent work on markets, White (2002) explains how particular market structures or spaces emerge. He posits that the way market actors manage uncertainty produces a role structure, shaped and formed by extensive mathematical modelling. Baker's (1984) research on the stock options market in the 1980s can be considered another important and early network study of markets. In his view, markets may be seen as social rather than exclusively economic structures, with demonstrable effects on the determination of prices.

More recently, Podolny (1993) introduced the analytical concept of status order to name the macro level view of markets as regular patterns of interlinkages between producers, consumers and third parties. Actors' positions in this hierarchy affect the perceptions and actions of others towards them and therefore the opportunities and constraints they face in the market (Jensen, 2008; Jensen and Roy, 2008; Podolny, 1994). These definitions highlight that the concept of status is not a static attribute of an actor insofar that it denotes a producer's position in relation to its competitors. The relational character of status means that it is formed in accordance with the network of relationships between market participants.

Status is valuable in markets because it functions as a signal of quality, influencing not only how firms are perceived but also the activities they engage in, and the decision to collaborate with other firms (Podolny, 1993). Defining status as perceived quality means that it functions as a signal based on the perception others hold of an actor's current and past performance. However, Jensen and Roy (2008) introduced the difference between status and reputation, arguing that the former is the prestige accorded actors because of their social positions and the latter, the prestige accorded them based on their previous performance.

Status influences an extensive range of market outcomes, as Sauder et al. (2012) insightfully showed in their review of the current state of the field. These include market segmentation (Phillips and Zuckerman, 2001; Podolny, 2001), price formation (Baker, 1984; Podolny, 1993), the formation and dissolution of exchange ties (Podolny, 1994; White, 2002), or exchange partner choices (Jensen and Roy, 2008; Granados and Knoke, 2013; Baum et al., 2005).

Whilst the concept of status tied to market social structure has been amply developed by Network Analysis, mention must also be made of Bourdieu and Fligstein's contributions to economic sociology regarding markets as fields – namely as a structure of actual and potential relations (Bourdieu, 1997, 2000). In the opinion of

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