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Market disputes and government intervention: an explanatory framework of risk transformation

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Abstract

This article examines the government intervention in market governance, that is, why a local government that claims to be a rule maker or market regulator would intervene deeply in transaction disputes between market players. Based on the institutional analysis in the fields of sociology and economics, the author constructs a theoretical framework of risk transformation to study the case of a loan dispute at the Wenzhou Private Lending Service Center. The study shows that there are two aspects in the process of government intervention in transaction disputes: the transformation of economic risk into political risk and the government's response to risk transformation. The completeness of law, the relationship between government and market players, and the ability of the government to withdraw from society are the three structural factors that affect risk transformation. Facing risk transformation, the greater the potential political risk perceived by the government, the more likely it is to intervene in transaction disputes. This paper provides a new analytical approach for studying the role of government in market transition and the social construction of market institutions.

Keywords: Market governance, Risk transformation, Government intervention, Risk-sharing rules

Introduction

The phenomenon and the research question

This article focuses on the phenomenon of government intervention in the process of market governance. The so-called market governance means that the government nurtures, regulates, and supports market transactions in particular areas through specific institutional arrangements, so as to promote the vitality and to maintain the order of the market (Liu, 2014). The so-called government intervention refers to when a government declaring as a rule maker or market regulator must intervene deeply in transaction disputes between market players, mobilizing public or private resources to resolve the transaction disputes in the process of market governance. In China's market transition, the phenomenon of government intervention has appeared in the process of local governance in various markets (such as the commodities market, the labor market, the financial market), and it has been an important aspect of the government-market relationship. Chinese and

international scholars, however, have paid less attention to this phenomenon and have not studied it in depth. The existing research can be analyzed in two groups: the role of the local government in market transformation and the social construction of the market system.

The role of the local government in market transition

A large number of studies in the fields of sociology and economics suggest that throughout China's market transition, local governments do not merely play the role of a rule maker or a market regulator, but often intervene in market activities, showing the multiple aspects of being market beneficiaries and sharers—i.e., “local state corporatism,” “local governments as industrial firms,” and “regime manager” (Oi 1992, 1995, 1998, 1999; Walder 1995; Hong and Cao, 1996; Zhang, 2000; Yang and Su, 2002; Qiu and Xu, 2004; Zhou, 2007a, 2010; Zhou, 2007b, 2008; Cao and Shi, 2009; Zhao, 2012; Feng, 2014). Based on the analytical approach of “institutional incentives—government behavior—market roles,” these studies reveal that, given the top-down administrative pressure or financial motivation, Chinese local governments actively intervene in the market to seek fiscal revenue or to signal their good political performance (Zhou, 2005). This reflects the changing relationship between local governments and the market in China's reforms.

However, the existing studies cannot explain the phenomenon in this paper due to a few reasons. First, the previous research focused on local governments' active intervention in market activities rather than passive intervention in market transaction disputes, and the relationship between the two types of intervention has been underexplored. Second, although the previous studies focused on the market role of local governments, they rarely analyzed the characteristics of the market itself or the behavioral logic of market players, making it hard to show the interactional mechanisms between the government and market players. Third, the previous research focused on the impact of fiscal reform on the market role of local government, ignoring other dimensions of the institutional environment (Qiu and Xu, 2004; He and Wang 2012a) as well as how social norms or culture shape the role of government.

The social construction of the market system

The relationship between government and the market is the core issue of economic sociology, especially the sociology of markets (Gao 2008; Fligstein 2008). In the sociology of markets, market is a social structure composed of a wide range of social relations between the government, enterprise, and the populace and so forth, and the formation of the market is affected by the specific historical context and social-institutional environment (Fligstein and Dauter 2007; Swedberg 2009; Fu, 2013a). The sociology of markets especially emphasizes that the government has always been a part of the market and has a profound influence on the formation of market order; the way in which the government intervenes and the extent to which the government gets involved in market depend on the political conditions of the particular society (Fligstein 2008). Accordingly, scholars have put forward many comprehensive analytical frameworks to study the formation and evolving mechanism of markets, such as the “politics-culture” framework

(Fligstein 1996, 2008) and the “politics-structure” framework (Fu, 2013b). These analytical frameworks highlight the important roles of government in defining property rights, selecting governance structures, and making the rules of transactions.

The sociology of markets provides a basic theoretical perspective for observing the relationship between government and the market, but it is still insufficient for analyzing the phenomenon of government intervention. First, the sociology of markets regards the government as the defining force of the market. It focuses on analyzing how the government influences the market while ignoring the reverse mechanism in which market players shape the government intervention. Second, although the sociology of markets believes that the way and degree of government involvement in a market depend on a wide range of social and political conditions, it does not open the black box of how the external environment affects the relationship between the government and the market. Third, the comprehensive frameworks of “politics-culture” and “politics-structure” do not provide the analytical tools to examine the occurring conditions of the specific phenomena. For this article, I examine what kind of structural conditions and through what kind of social mechanism can government be brought to intervene in market transaction disputes.

In short, the research on the role of local government in market transformation focuses on the analysis of government behavior, taking the market itself as the background; the research on the social construction of market systems focuses on the analysis of the relationship between market subjects, regarding the government as an important factor. Nevertheless, both two groups of research focus the unilateral dimension of the government over the market, neglecting the role of market players in shaping government intervention. They both emphasize the interest-bearing characteristics of the market but ignore other core characteristics (such as risk), and they both lack the analysis of the external structure and the mechanism linking market characteristics with government behavior.

In this article, my research questions are why would a government that claims to be a rule maker become deeply involved in transaction disputes? From claiming to be a market regulator to intervening in actual transaction disputes, what is the mechanism behind this transformation of the government’s role? What is the underlying institutional logic?

An explanatory framework of risk transformation

Based on the new institutionalist analyses in the fields of contemporary sociology and economics (Williamson 1996, 2005; Nee 2005; Scott 2010), this article examines the local government intervention in market transactions in a broader institutional environment. Specifically, this article takes a risk-based perspective and highlights the risk characteristics of market governance; it constructs a theoretical framework of risk transformation to reveal the risk-based interactional mechanism of market players and local government, as well as the institutional logic of government intervention.

Risk transformation

A risk-based perspective is an important lens for observing modern society (Taylor-Gooby and Zinn 2010),¹ and it is particularly helpful to understand the process of market governance by Chinese local governments. Existing studies have shown that risk is an intrinsic characteristic of transactions that exists throughout transactions and governing mechanisms, and so a market player will reduce risk in a variety of ways before, during, and after transactions (Williamson 1979, 1985, 1996, 1998). At the same time, during the process of public governance, the government also pays great attention to its own risks and adapts governance structure and behavior according to different risk scenarios (Fei, 2009; Cao, 2011, 2014a; Lü, 2013; Cai 2008). Scholars have adopted the risk-based perspective to study the form of economic organization (paying less attention to government behavior) and the government behavior (paying less attention to market characteristics). This article attempts to integrate the two aspects into a theoretical framework of risk transformation and applies it to analyze the market governance by Chinese local governments.

The so-called risk transformation refers to the transformation of various risks that have differences in sources, natures, or the subjects (bearing the risk). In this article, risk transformation refers to the transformation of economic risk into political risk. Economic risk simply means the uncertainty of loss suffered by market participants in the transaction process.² Political risk means the government's uncertainty of loss regarding officials' political performance and social stability caused by public discontent, petitions, and protests.³ The transformation of economic risk into political risk, that is, the original uncertainty of transaction loss suffered by market players, is transformed into the government's loss of public legitimacy.⁴ Specifically, in China's context, when a transaction dispute occurs, the possible losing market players ask the government to resolve the problem and share the risk, instead of resolving disputes through legal procedures and taking risks on their own. If the government does not agree to intervene or its resolution is not satisfactory, the market players may contend or protest against the government, inflicting social instability and damaging the local officials' political credits.

¹In this paper, risk refers to "the objectively existing uncertainty of the ultimate loss caused by an event in a given situation, in a particular period" (Liu, 2006: 10). This definition emphasizes the objectivity, loss, and uncertainty of risk.

²The factors leading to economic risk can be divided into at least two categories: one consists of the environmental factors outside the transaction subject, such as macro-economic fluctuation and the other consists of the behavioral factors of the transaction subject, such as defaulting, fraud, and other opportunistic behaviors. This paper focuses on the transaction risk brought by the behavioral factors of market subjects, such as the uncertainty of loss caused by one side's opportunistic behavior over another side during transactions.

³Political risk is rooted in various sources, including factors such as the government's own behavior, the people's individual factors, and macro-institutional structure factors. For example, political risk may arise from the direct conflict between certain administrative work of the government and the interests of the general public, or it may be generated from administrative leaks when the government provides certain public services, or it may originate from extreme acts by individual citizens.

⁴There are many ways to transform economic risk into political risk. For example, economic risk can be directly transformed into political risk, or it can be transformed into social risk first, and then transformed into political risk. This paper only discusses the situation where economic risk is transformed directly into political risk. At the same time, this paper regards risk transformation as the core component and internal mechanism of government intervention, focusing on analyzing its structural roots rather than its specific processes.

In this article, I argue that the reason that the government deeply intervenes in transaction disputes is precisely the potential transformation of economic risk into political risk. When risk transformation occurs, the relationship between different parties and the risk-takers will change, that is, the relationship between market players transforms into a relationship between market players and the government. The uncertainty of loss, which market players originally faced, is, to a certain extent, transformed into the government's uncertainty of loss of legitimacy. At this point, the transformed political risk becomes an external constraint on the government. Facing the possible risk, the government must decide how to respond. The way in which the government responds is diverse. Intervening in transaction disputes to reduce political risks is an important method. When the government chooses to intervene, its role in market governance may change. In this circumstance, the changing mechanism of market governance can be understood as a process of risk transformation and control by government intervention in market transactions. It is worth pointing out that government intervention is a dynamic process including two dimensions in the interaction between the government and market players: the transformation of economic risk into political risk and the government's response to risk transformation.

The structural sources of risk transformation

How then does risk transform? Referring to Williamson's multi-level causal model (Williamson 1996, 2000), risk transformation includes at least four levels of analysis, namely, the institutional environment, the governance structure, transaction characteristics, and individual attributes.⁵ Among them, the institutional environment and the governance structure constitute the structural source of risk transformation and are the focus of my analysis.

I suggest three structural sources of risk transformation, namely, the completeness of the law, the relationship between the government and market players, and the ability for the government to withdraw from society. The latter two are institutional environmental factors that relate to the legal system, political system, cultural traditions, etc., and they are difficult to change in a short period of time. The relationship between the government and the market subject is the governance structural factor. It relates to the degree of pre-intervention by local governments in transactional activities, and it can be selected by local governments in a short period.

The completeness of law The law is the institutional support of modern market economies,⁶ as it provides basic rules for market transactions (Qian, 2000). Although an absolute complete law does not exist (Dixit 2004; Williamson 2005, 2010), the extent of

⁵The institutional environment refers to holistic factors such as the law system, the polity system (Williamson 1996), and the concept system (Meyer and Rowan, 1977; Zhou, 2003). The governance structure refers to the organization or institutional arrangement mode adopted by the government to govern market transactions. Transaction characteristics include transaction size and potential losses. Individual attributes include preferences, emotional control, and habits.

⁶Dixit points out that a "market economy needs governance rules as its basis ... criminal law generally does not have an economic function, but it can punish theft or other economic fraud; the core concerns of civil law relate to economic behavior; the law of contracts mainly focuses on the management of economic activities; tort law and the law of debt are also focused on the contractual or non-contractual governance of the economic field... one of the basic functions of the state is to legitimize the process of legislation and law enforcement, so as to clearly define property rights and ensure freedom in signing contracts ... Thus it can be seen, the legal system is an essential condition for a successful market economy" (Dixit 2004: 2).

law completeness can be compared. Completeness relates to multiple dimensions such as coverage, clarity, and convenience. Coverage is the extent of the law's coverage or the extent of the deficiency of law, e.g., whether a corresponding law exists to support the handling of a particular transaction dispute. Clarity is the extent to which the law is clear, so as to provide explicit guidelines for dealing with transaction disputes. Convenience relates to the cost of law enforcement, e.g., how efficient the law would provide support for dealing with transaction disputes.

The completeness of law affects the possibility of transforming economic risk into political risk. In general, when other conditions are controlled, the higher level of law completeness leads to a lower probability of risk transformation. Conversely, the more the law is missing, vague, or expensive in terms of enforcement, the higher the probability of risk transformation will be. Since the legal channel is the only one of the ways that market players resolve transaction disputes, the higher the degree of the law incompleteness, the higher the possibility that a market player will choose alternative ways to reduce economic risk (Williamson 1975, 1985, 1996; Dixit 2004; Liu, 1999). In the selection set of alternative approaches, direct government intervention is an important one. Although the low level of law completeness does not necessarily lead to risk transformation, it will increase the possibility of risk transformation.

The relationship between government and market players The relationship between the government and market players refers to the nature and the intensity of the government pre-intervention in market transactions, which is the result of the government's rational choice.⁷ According to the degree of pre-intervention, I categorize the local governance structures of a market into four ideal types (see Table 1): integrated governance, mixed governance, third-party governance, and self-governance (Liu, Shiding: Social Interaction Characteristics and Social Governance Structures, unpublished). In integrated governance, the government dominates economic activities like playing the role of an athlete in a competitive sports game, and there are no free transactions between market players. In mixed governance, the government intervenes in market transactions to a certain extent like playing the double roles of referee and athlete at the same time. In third-party governance, the government completely abstains from intervening in market transactions but governs market transactions by the rules of the law, playing the role of a referee or rule maker. In self-governance, the government does not intervene in market transactions, and market players spontaneously govern their own transaction activities.

The relationship between the government and market players has a direct impact on the risk transformation in a transaction dispute. In general, the closer relationship is associated with the greater possibility of the risk transformation. The relationship between the government and the beneficiary will affect the relationship between the beneficiary and the damaged party, as well as the government and the damaged party.

⁷Relevance reflects the extent to which the government intervenes in the market prior to the emergence of a transaction dispute, rather than the extent to which the government intervenes after a transaction dispute. In general, the higher the revenue associated with the market subject, the deeper the extent of government's pre-intervention in the market may be. When a government takes the initiative to intervene in a market, it will form a variety of possible relationship attributes with market subjects, such as competition, cooperation, guarantees, or control, resulting in different relationship strengths. The question of what relevance the government chooses is beyond the scope of this paper. The aim of this paper is to take the degree of government pre-intervention in the market as an independent variable and discuss the different effects of different levels of intervention on the risk transformation of disputes.

Table 1 The relationship between government and market players (governance structure)

Governance structure	Role of government	Degree of pre-intervention	Risk transformation probability	Risk sharing
Integrated governance	Athlete	High	High	Co-shared
Mixed governance	Athlete and referee	High	High	Co-shared
Third-party governance	Referee or rule maker	Low	Low	Self-assumed
Self-governance	Bystander	Low	Low	Self-assumed

Furthermore, it affects the normative cognition of the damaged party to the relational structure of these three parties. When a local government is closely connected with a beneficiary, the damaged party who complies with the folk society's "principles" (Cao and Shi, 2008) will demand that the government bear the corresponding joint liabilities, which legitimizes risk transformation. Some studies (Zhang, 2000; Zhao, 2012) have pointed out that a local government's high pre-intervention in the market transaction is often an important root of their involvement in social conflict.

The government's ability to withdraw from society The government's ability to withdraw from society refers to the possibility of the government withdrawing from a society based on the clear boundary of the government's administrative responsibility as determined by society. Since different countries have different political systems or cultural traditions, the government's ability to withdraw from society varies. For example, Zhou Li'an (2014: 20–21) pointed out that "under the democratic system, the executive heads of government are elected by the electorate in their respective jurisdictions, and their respective responsibilities are relatively clear. As a limited government, the administrative responsibility of the chief executive is also relatively limited. For example, when debt exceeds a certain threshold, a local government can declare bankruptcy. When a government steps down, the public will re-elect a new government to take power, and the last protective fence is the government's limited responsibility or government turnover. Under the authoritarian system, if a problem or hidden troubles at any level of government are handled poorly, they may evolve into problems and pitfalls for the central government, and the central government will become the ultimate undertaker of various social and economic issues, as well as the risk of domination."

The ability of the government to withdraw from society influences risk transformation. In general, as the ability to withdraw decreases, the probability of risk transformation increases. The micro-mechanism of how the ability to withdraw would influence risk transformation includes two aspects. The first is a rational anticipation mechanism. The ability to withdraw affects the government's sensitivity to the stability of the regime, and thus, it affects the people's rational expectations for initiating risk transformation. For example, a study by Cao (2014b, 181–182) shows that "one of the characteristics of a democratic state is that maintaining political stability is for providing pure public goods, not for keeping state power in a particular political group ... One of the differences between authoritarian and democratic states is that maintaining regime stability is not only about maintaining a central government to function properly

and effectively, but also ensuring the state power in hands of a certain political ruling group." In other words, different abilities to withdraw mean that the government has different sensitivities to the stability of the regime. The more sensitive the government, the more likely the people expect the government to respond actively to political risk, and thus, the more likely the economic risk will be transformed into political risk. The phenomenon of "bigger disturbance, bigger solution" in China's local governance (Tian, 2010; Han, 2010; Yang 2014) is a typical example.

The second is a cultural cognition mechanism. The government's ability to withdraw from the society also indicates the public perception of the boundaries of government's liability (Meyer and Rowan, 1977; DiMaggio and Powell 1991; Campbell, 2004; Zhou, 2003; Scott 2010), which deeply affects the possibility of risk transformation. The lower the government's ability to withdraw, the less clear the government's administrative responsibilities as defined by society and the easier the public assumes that the government will take ultimate responsibility. When government refuses to take responsibility, the public finds this difficult to accept, likely leading to discontent. "The structure of family-state isomorphism" in the Chinese Confucian tradition and the "paternalism" in the socialist planning economy (Qiu and Xu, 2004) shape the public's conception of "the officials and the people" (Wu 2007) and become the cultural sources of risk transformation.

The relationship between the three structural sources of risk transformation As mentioned above, each structural source has an independent influence on risk transformation, and each suggests a different mechanism of risk transformation. (1) The completeness of the law affects a market player's internal motivation to initiate risk transformation. Low completeness of law is often a motivational source of risk transformation. (2) The relationship between the government and market players affects the market players' normative legitimacy for initiating risk transformation. The deep government intervention in market activities often directly triggers risk transformation. (3) The ability of the government to withdraw from society affects a market player's cognitive legitimacy for initiating risk transformation and its rational expectation for obtaining a positive response from the government. A low ability of withdrawal is often the booster of risk transformation.⁸

In reality, the three factors and mechanisms do not act independently of each other, but affect the risk transformation simultaneously, and the different combinations of them have different degrees of impact on risk transformation. As shown in Table 2, I operationalize each structural factor with a high degree ("+") and a low degree ("-"), and there are eight combinations of the three factors (see Table 2, Y1 to Y8).

In Y1, the possibility of transforming economic risk into political risk is highest. The reason is that the low degree of law completeness increases the motivation to reduce the economic risk by seeking methods outside the legal system; the close relationship

⁸The concept of normative legitimacy and cognitive legitimacy derive from the classification of the organizational legitimacy of Suchman (Suchman 1995). Suchman distinguished organizational legitimacy into the three categories of pragmatic legitimacy, moral legitimacy, and cognitive legitimacy. The "normative legitimacy" used herein is similar to the meaning of Suchman's "moral legitimacy," and it reflects the evaluation of a market subject on government behavior based on social norms. The "cognitive legitimacy" used herein is one of Suchman's original concepts, and it reflects the expectation of a market subject on government responsibility based on the cultural traditions that the government should follow.

Table 2 The structural source of risk transformation

	The combinations of structural factors							
	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
Withdrawal	–	–	–	–	+	+	+	+
Relationship	+	+	–	–	+	+	–	–
Completeness	–	+	–	+	–	+	–	+

between the government and market players legitimizes the damaged market player to seek the government to solve its problems or to take responsibility; and the government's low ability to withdraw leads to the public having higher expectation for a positive government response. In contrast, the probability of risk transformation is the lowest in Y8. Between Y1 and Y8, there are six situations in which the possibility of risk transformation is relatively intermediate. In the process of China's market transition, the low completeness of law and the government's low ability to withdraw are two important institutional characteristics. If a local government constantly engages in market activities, risk transformation is easily incurred.

Government responses to risk transformation: withdrawal, neutralization, and intervention

Facing risk transformation, a government's response can be divided into three ideal types: withdrawal, neutralization, and intervention.⁹ Local governments need to weigh and balance these three options.

Withdrawal refers to government bankruptcy or government turnover, i.e., a particular government withdraws from society in order to avoid the unlimited liability of economic risk. Such a government that no longer plays the role of the referee can avoid sharing economic risks to a certain extent but will lose administrative power, which constitutes the benefit and the cost of government withdrawal.

Neutralization means that the government adheres to the rule of law to coordinate the relationship between market players and deal with the economic risks. The government plays the role of the referee but insists on not sharing any of the economic risks of the market players. For the government, the benefit of neutralization is not sharing economic risk, but the cost is the potential political risk.

Intervention means that a government is forced to resolve transaction disputes between market players, sharing the economic risks directly or indirectly and relinquishing the role of the referee.¹⁰ The benefit of government intervention is the possibility of reducing potential political risk, and the cost is that such a government needs to mobilize public or private resources to share the corresponding economic risks.

Many factors influence the response of the local government, but the intensity of potential political risk perceived by the government and the government's sensitivity to political risk is particularly important. On the one hand, under the condition of a given sensitivity towards political risk, the higher the potential political risk perceived by the

⁹The ideal classification of withdrawal, neutralization, and intervention is inspired by the research of Hirschman (2001).

¹⁰Many researchers have studied the phenomenon of China's "government backstop" in its local governance. They have analyzed its core characteristics, institutional causes, and social consequences, etc. (Yang 2014). Government intervention, however, differs from a government backstop. Intervention is the precondition of a backstop, but it does not necessarily lead to a backstop. There are a variety of options for government to intervene in a dispute, while a backstop is only an extreme response.

government, the more likely it is to intervene in transaction disputes. The reason is that when the government anticipates that its political losses will be higher than the losses caused by sharing economic risks, it is more likely to reduce its political risks by intervening in transaction disputes.¹¹ On the other hand, it is worth noting that the perceived intensity of potential political risk is associated with the government's sensitivity to political risk and its ability to withdraw from society. If a government's ability to withdraw from society is high, and if the boundaries of government responsibility defined by society (and the top-down responsibility system within the government) are relatively clear, then the impact of the people's risk-transforming behavior on political stability will be relatively small. The sensitivity of the government to risk transformation will be relatively low. In the meantime, when the objective conditions of risk transformation are the same, the perceived intensity of potential political risk government is relatively low.

Case background

The origin and subsiding of the loan dispute

This article takes a loan dispute in the Wenzhou Private Lending Service Center (hereinafter referred to as the "service center") as an example to analyze the phenomenon of government intervention in market governance. The service center was an innovative institutional arrangement for "regulating and developing non-governmental financing" after the outbreak of a debt crisis in Wenzhou in 2011.¹² The organizational model of the service center is a combination of government leading and enterprise operation (Xiang and Zhang, 2014). The Wenzhou city government and the Lucheng district government set up the Wenzhou Private Lending Registration Service Co., Ltd., which was jointly funded by 14 members of the Lucheng District Federation of Industry and Commerce and eight natural persons. The service center does not engage in the private lending business. Instead, it offers a common platform to provide P2P financing information services¹³ and other related supporting services for relevant agencies and organizations (such as a loan company, a notary office, and law firm). The service center aims to attract both lenders and borrowers by providing the services of information release, information consulting, and registration. The P2P financing information service agency and related supporting service agencies on the service center platform provide financing information, loan matching, asset evaluation, contract notarization, legal consultation, and other professional services to both lenders and borrowers.

¹¹Specifically, the potential political risk intensity perceived by local government is a function of the intensity and persistence of the public's risk-transforming behaviors, such as petitions, protests, and demonstrations. Due to limited space, this paper does not conduct an in-depth analysis of this issue.

¹²In 2011, civil financial crisis broke out in Wenzhou and some other places. In 2012, the State Council approved the establishment of the Wenzhou Comprehensive Financial Reform Experimental Area, and it formulated the primary task of "regulating and developing non-governmental financing." To this end, the Wenzhou government carried out a number of institutional explorations, the most representative of which was the "Wenzhou Private Lending Service Center." At present, there are nearly 100 similar institutions in China.

¹³P2P is the abbreviation of peer to peer, meaning "individual to individual." In a P2P financing information service agency, individuals personally loan to each other through an agency. Lenders and borrowers inform the agency about their own lending and loan demands, and the agency matches lenders and borrowers whose conditions are suitable for each other. When both sides reach a consensus on the amount, term, interest rate, guarantee, etc., they sign a contract, and the agency collects a service charge.

Although the service center is set up by the local government to govern private lending transactions, the local government emphasizes that the main body of funding and operating the service center is private enterprises, and the government is only the rule maker and market regulator for the service center. Since its beginning, the service center always emphasizes that lenders and borrowers take their own risk,¹⁴ and it even requires lenders to sign a statement agreeing to assume their own risk. This author found, however, that the local government was often involved in loan disputes in the actual operations of the service center. From June 2012 to August 2014, the author entered the service center four times and accumulated 4 months of observations. The author also collected considerable detailed information on the process of settling loan disputes by conducting in-depth interviews, a literature review, and other methods. The author paid especially close attention to the meaning which the parties of disputes and local governments placed on disputes and their respective actions. The following section shows a typical case of a loan dispute. In this case, the local government intervened when the principal of a loan was not due, and the dispute was quickly resolved after the government intervened.

Formal contract and risk warning

In September 2012, Guo Xinsheng, a Wenzhou public institution employee,¹⁵ came to the service center to offer a loan. After a careful review, he chose an intermediary agency, Tengfei Economic Information Consulting Co., Ltd. (referred to as “Tengfei Company”) on the service center platform, to help him find borrowers.

The Tengfei Company soon matched the borrower Peng Jianguo with him. Peng was a business owner in Hangzhou and had real estate in Wenzhou as collateral. After an introduction, Guo decided to give Peng a 6-month loan of 1.5 million yuan, from September 29, 2012, to March 28, 2013, with a monthly interest rate of 1.35%. The guarantee was a secondary housing mortgage. The real estate evaluation price was 5.5 million yuan for the first mortgage, upon which the bank had loaned 3.3 million yuan; for the second mortgage, the real estate evaluation price was 7.2 million yuan, upon which Guo lent 1.5 million yuan.¹⁶

On September 29, 2012, however, the borrower, Peng, was not in Wenzhou. Thus, his representative Peng Jianye signed a mortgage loan contract with Guo, and he also signed an information advisory service contract with the Tengfei Company. After notarization, the lenders remitted the money to the borrower, the borrower confirmed the

¹⁴The website of the service center states: “through building a private lending service center, we set up a safe, legal, comprehensive and orderly service center for private lending. Both lenders and borrowers legally, voluntarily and directly contact each other... and bear their own risks. The service center is not liable for bad debts.”

¹⁵According to academic practice, the names of the persons and intermediary agencies involved in this case have been given pseudonyms.

¹⁶Before borrowing money from Guo, Peng had already used real estate mortgage loans. His first mortgage was from a bank with a real estate evaluation price of 5.5 million yuan. The bank loaned 3.3 million yuan. This time, Peng again used his real estate for a second mortgage. Thus, the real estate value needed to be evaluated again. The real estate evaluation company gave a market valuation of 6.1 million yuan, but according to the risk control requirements of the service center, the second mortgage loan under this evaluation price could not reach 1.5 million yuan. In order to facilitate the transaction, the Tengfei Company negotiated with Peng and Guo to increase the evaluation to 7.2 million yuan. In the context of Wenzhou’s falling housing prices, this overvaluation became a potential risk.

payment, and they both paid a service fee to the Tengfei Company and registered with the service center.

Prior to signing a contract and registering lenders, borrowers, and the intermediary agency, the service center always reminds every lender of their risk and requires them to copy out a letter committing to assume their own risks. Before signing the contract, Guo signed a formal letter of risk warning.

Loan disputes and risk transformation

According to the agreement, the borrower needed to pay interest on the 28th of every month. Guo did not, however, receive any interest for the first month. Guo sensed the risk and quickly contacted the Tengfei Company to start off interest collection procedures. On November 12, 2012, the Tengfei Company issued a letter of attorney to the borrower to collect interest, but Peng replied that it was temporarily difficult for him to pay the interest. On November 19, 2012, accompanied by a lawyer and a salesman of the Tengfei Company, Guo went to Hangzhou to collect interest, but Peng could only dispose of the mortgage since he could not pay back the principal and the interest.

The Tengfei Company first proposed that both sides negotiate the disposal of the mortgage, but Guo and Peng could not reach a consensus on the property price. Soon, Guo learned that Peng already owed a large amount of debt in Hangzhou and other places and had been sued by creditors. In this case, buying Peng's real estate was high risk because the real estate transfer would require writing off the mortgage and would take time before the removal of mortgages and the transfer of ownership. Since the borrower was in debt, the real estate would likely be seized by a non-local court while the mortgage was being written off for the complete transfer of ownership. This risk was uncontrollable; thus, almost no one dared to buy the real estate at that time.

This failure of negotiations—plus the fact that the mortgage could be seized by the court—made Guo feel his risk of loss too high. On the grounds of the Tengfei company's early oversight and credit investigation, Guo demanded that the company share responsibility and risk, such as by jointly paying for the real estate. The Tengfei Company expressed its willingness to assist in the recovery of the loans but refused to share the risk, claiming that Guo could sue the company if he was not satisfied.

Guo was very dissatisfied. While continuing to ask the Tengfei company to solve his problem, he immediately decided to report the situation to the service center. On November 23, 2012, Guo filed a complaint at the service center. The service center, however, refused to get involved but instead required the Tengfei Company to coordinate and recommended enforcement by the courts, which caused Guo to feel as though his risks were even higher. As a result, he began to prepare both a legal battle and a petition. On November 28, 2012, Guo wrote many petition letters.

Facing the requirements from Guo and the Service Center, the Tengfei Company recommended Guo to try a second method, namely, to apply for a certificate of enforcement at a notary office and then apply for enforcement at court. On December 6, 2012, the legal advisor of the Tengfei Company went to the notary office to apply for the issuance of a certificate of enforcement. The notary office said, however, that because the principal of the loan was not due and only the interest had not been repaid; therefore, the certificate could not be issued where there was no court's judgment. The next day,

the legal advisor of the Tengfei Company, a notary official, and Guo went together to the court to discuss the application for the certificate of enforcement. The court's executive chamber refused to accept their case because the borrower's registered place of residence was in Hangzhou, not in Wenzhou.

The unsuccessful initiation of enforcement procedures worried Guo, and he consulted the feasibility of civil litigation. The feedback from the court was that it would take at least 2 years from prosecution to execution. At that time, however, housing prices were declining rapidly in Wenzhou. In addition, the bank as the first mortgagee had priority for repayment. Therefore, if Guo chose civil litigation, he could lose everything. The time constraint became a matter of life and death.

I am a retired worker, a patient who has undergone liver cancer surgery. My wife is also a retired worker, suffering from severe diabetes, high blood pressure, and heart disease. My daughter and son-in-law have been laid off from their company and have nowhere to live. Our entire family accumulated the 1.5 million yuan through a lifetime of hard work, our pensions, and layoff compensations. We hoped to earn some interest as income so that we could get better medical treatment and live a few years longer, and we wanted our children to have money to start up their new business... But now everything will come to nothing! We will face the tragic situation of ruin and death, while financial reform in Wenzhou also faces serious threats and challenges.

Because the estimated price for the mortgaged real property was far higher than the actual market price, and because the intermediary company did not do a good investigation in advance, this "deadbeat" seized the chance to deceive. A few months ago he was prosecuted and seized by individuals and local banks in Hangzhou. The amount of money involved was huge, and the problem was very serious. We are afraid that Wenzhou would be affected, so we sincerely request the government to help us quickly, to protect our rights and minimize our losses, to comfort our hearts, to prolong our lives, and to avoid this tragic situation! We hope that financial reform in Wenzhou can continue to develop healthily and achieve greater success! (Petition Letter, 20140822)

Faced with the hindrances of the legal channel, Guo formally started a petition. In December 2012, he repeatedly visited the district and municipal offices of financial services, as well as the municipal petition bureau, where he submitted a number of petition letters, stated the process of the loan dispute, the detailed reasons, the significant impact, and his urgent demand, and of course, he asked the government officials to solve the problem. Guo's petition letter written to the secretary of the Municipal Communist Party Committee was particularly detailed and comprehensive. The above quote was part of the letter.

Government intervention and risk sharing

After Guo's petition, the Lucheng District Bureau of Financial Management¹⁷ issued a "rectification notice" to the Tengfei Company. The company agreed to rectify and fully assist in resolving the dispute but refused to share the potential loss. The District Office of Financial Services urged the company to seek a solution and suggested that Guo should try to solve the problem via private negotiations with the borrower or by legal

¹⁷In Wenzhou, the local financial authority and the financial office are actually the same group of staff members.

means of enforcement. But they could not solve the problem in a short amount of time.

Guo's petition to the municipal government attracted considerable attention from the government leaders. After receiving petition materials, the secretary of the Municipal Communist Party Committee instructed the relevant departments to quickly deal with the issue. On January 16, 2013, the Municipal Office of Financial Services held a coordination meeting for resolving loan disputes at the service center, which the financial offices, the courts, and the real property management authorities at the municipal and district levels attended, as well as the notary office, banks, the service center, and the Tengfei Company. The meeting agreed that if the borrower cooperated, the fastest solution would be a court mediation and then an application for enforcement. The problem of applying for enforcement, however, was that the principal was not due, making the matter controversial in law. If the lender, Guo, were to buy the mortgaged property, the housing management authority could shorten the transfer period to 3 days, but the risk of the property being seized still remained.

After this coordination meeting, Guo frequently went to the service center and the District Office of Finance Services to demand implementation. The financial office then urged the Tengfei Company to contact the borrower, Peng. On January 22, 2013, the finance office called on the parties to conduct an on-site negotiation. Peng agreed to come but insisted that his mortgaged property price must be more than 4.5 million yuan. Taking into account the risk of property seizure, Guo decided to pursue litigation, quick court mediation, and enforcement.

The lawsuit was put on the record by the court on January 28, 2013. Because the borrower would not dispose of his property at a price less than 4.5 million yuan, the court decided to open a session instead of going through mediation first. On February 26, the court delivered its verdict that the defendant Peng should repay the principal and interest within 3 days from the effective date of the judgment; otherwise, the property would be sold by force and the income would be paid to the plaintiff, Guo, after priority repayment to the bank. On February 28, both the plaintiff and the defendant signed the verdict. Guo applied for enforcement on March 19, and the court filed the case on March 25 to begin organizing an auction. On May 29, the property was successfully auctioned for 4.33 million yuan. The bank took priority and was compensated 3.5 million yuan, after which Guo received a repayment of 860,000 yuan. Peng thus still owed Guo 640,000 yuan and interest. On July 9, 2013, the court made a ruling for the enforcement.

The whole process of this dispute lasted only 6 months from occurrence to resolution. With government intervention, the court filing, trial, and enforcement were all shortened.

Why did the government intervene in the loan dispute?

According to my framework of risk transformation, the government intervention in this loan dispute included two aspects: the transformation of economic risk into political risk and the government's response to the risk transformation. First, when the lending relationship was formed, the lender faced uncertainty about the loss of their principal and interest, and the economic risk became salient when the borrower was unable to

repay and disposal of his collateral was difficult. When various solutions failed, the lender did not follow the rule of assuming his own risk but instead continued to appeal to government authorities for help. In addition, the lender linked the solution of the loan dispute with the success or failure of Wenzhou's financial reform, transforming an economic risk into political risk. Second, facing this risk transformation, the government did not choose to remain neutral or withdraw, but instead intervened in the dispute and mobilized public resources to speed up the handling of the dispute. So why did the lender instigate risk transformation? Why did the government respond as such?

The structural sources of risk transformation

As previously described, risk transformation is affected by structural factors as well as transaction characteristics and individual attributes. In this case, I recognize that the loan amount, the lender's risk-bearing capacity, the borrower's repayment ability, the mortgage market price, and so on, all affected the risk transformation to varying degrees. However, in this article, I only focus on studying the structural sources of risk transformation.

Low completeness of the law

Studies have shown that the low completeness of the law is particularly evident in transition economies (Murrell 1996; Djankov and Murrell 2002). Although the Chinese Civil Law and the Chinese Contract Law regulate private loans, the laws suffer problems such as low completeness, vague language, uncertain enforcement, and a high cost of legal operation (Dixit 2004; Chen, 2008; Xiang and Zhang, 2014). Loan risks are to a large extent not easily covered by the law, and lenders thus have a high incentive to reduce their risks by other means.

In this case, the low completeness of the law first manifested itself in the fact that the court's enforcement conditions for notarization and mortgage disposal were relatively vague. Under the condition that the principal of the loan was not due while the lender discovered the borrower's indebtedness, there was considerable controversy in judicial theory and practice regarding whether the court can enforce the disposal of collateral. So, Guo felt difficult to protect his creditor's rights through court enforcement when the borrower defaulted. Since there was little hope for enforcement, Guo had to turn to general civil litigation, but the long-running time and the low efficiency of the legal system could be an additional uncontrollable risk—another important manifestation of the low completeness of the law. Guo made a statement about this.

There was also notarization. Now we see it was totally useless, as notarization basically only offered psychological comfort, and indeed without the notary, we would be more vigilant... In normal procedures, it takes six months to accept a prosecution and half a year to enforce the law. When we went to the court to inquire, the court's staff suggested that we do not sue because it would take a long time. And, after all, Peng owed the bank more than 3 million yuan, and his mortgaged house price was only enough to pay back the bank. We, of course, were not reconciled to this situation, no matter what, I had to appeal to the higher authorities for help, to ask the party secretary to help us ... we had lost so much. If I did not appeal, we would lose more. Meanwhile, the bank was not as worried as we were. (Interview, 20140810)

In fact, after the outbreak of the Wenzhou debt crisis in 2011, civil financial disputes increased sharply, and the local courts were overloaded, which showed the problem of inadequate judicial resources and the time cost of law enforcement. For example, in 2013, the average time for a trial of a financial case in the Lucheng court was 120.04 days, with complex cases that could take two years. It can be seen that the low completeness of the law was an important driving force for Guo to initiate risk transformation, while situational factors (the continued decline of the mortgage market price and the second mortgagee status) aggravated the possibility of risk transformation.

A close relationship between the government and market players

If the low completeness of the law is a kind of structural impetus for risk transformation, the characteristics of a mixed governance structure at the service center provided normative legitimacy for lenders to initiate risk transformation. Given its corporate nature, the service center carried out a risk warning to the lender who made a voluntary commitment to undertake the risk. However, the government background of the service center provided a legitimate rationale for the lender to initiate risk transformation. Guo emphasized this point.

We are just asking the government to help. We're not saying it's government's responsibility. If the service center doesn't have a government background, we wouldn't seek their help. Besides, the government is responsible for not helping, and, after all, the government's credibility counts. We used to work in public institutions and agencies, and we surely trust the government ... If the Tengfei company were not [doing business] in the service center, I would not get involved with it. I buy services from the company because it was under the supervision of the government. When I invested my money, I didn't know it was a company, I thought it was a government agency while not using the government's title. Anyway, I am not an expert in this respect. (Interview, 20140810)

It is not difficult to find that Guo selectively identified the role of the government in the market, that is, by recognizing the government's role as a referee before the dispute and stressing its role as a player after the dispute. This is clearly embodied in several discourse strategies of the normative game (Binmore 2003; Liu, 2011). The first is the traceability strategy, namely, looking back at the premise of the contract's formation. By emphasizing that the service center's government background was the basis for signing the contract, the lender was trying to get rid of the contract's constraints and highlight the inherent responsibility of the government to resolve the dispute. In particular, when there was a flaw in the company's behavior, the lender traced the responsibility for regulating market access back to the government. The second was the fuzzy strategy, namely, obfuscating the enterprise nature of the service center. The lender denied the pure corporate nature of the service center and refused to acknowledge the relevant information which he was given. The mixed governance structure of the service center provided Guo with the strategic space and the basis of legitimacy for risk transformation. The third was a deterrence strategy. The lender was aware of the legitimacy limitations of the above two strategies. Therefore, on the one hand, he sought the help of

the government and, on the other hand, he took a deterrent strategy to enable the government to perceive the potential political risks of withdrawal from negotiations so as to prompt the government to solve his problem. In fact, the local government was well aware of this, and the District Office of Financial Services had tried to change the service center's mode of operations.

The Wenzhou Private Lending Service Center is a public service platform for private loans that do not take loan risk and is not responsible for the disposal of risky loans. Because intermediary financial agencies have entered the center, however, most lenders believe that this is a government-built platform and that the intermediary agencies on the platform are certified by the government. They mistakenly treat the intermediary agencies and the service center as one, and once lending risk appears, lenders frequently appeal to the service center or even appeal to the relevant government departments. The high risks of private lending will lead to high pressures for the government and the center to maintain social stability for a long time. (Source: "A Report on the Transformation of the Mode of Operations of the Wenzhou Private Lending Service Center")

It can be seen that the government clearly perceived the political risk contained in this mixed governance structure. In that structure, the relationship between the government and the service center and the relationship between the service center and intermediary agencies caused the government to have a relationship with the intermediary agency. Therefore, when there was a flaw in the intermediary companies' behavior, the lender was quick to initiate risk transformation, and the government faced the contradictory roles of referee and athlete.

The government's low ability to withdraw from society

Studies have shown that under centralized regimes, the central government is highly sensitive to political stability (Cao, 2014a, 2014b). The top-down system of administrative responsibility requires the local governments to maintain local political and social stability (He and Wang 2012a; Cao and Luo, 2013). This kind of institutional environment is familiar to the populace, and it easily results in the people's tactical expression of their interests (Tian, 2010; Lü, 2013). This leads to the potential transformation of economic risk into political risk. This point is clearly reflected in Guo's description.

At first, they didn't want us to petition. This was a matter of political accountability. If we petitioned, then the performance of the private lending service center would be questioned. The center found it inconvenient to directly tell us not to petition. They actually did not want us to bother the government. Anyway, we were going to petition to all of the local financial offices. When we went to the municipal government to make our petition, they didn't accept our letter. But I thought that no matter what I would leave them with the letter, so I left the petition letter there. Later on I heard that the secretary of Municipal Party Committee read the letter very seriously. Without the secretary's attention, the process would have certainly been very slow. (Interview, 20140810)

More importantly, the form of state-society relations in China for thousands of years has profoundly shaped the people's perception of the state and the government (Gan, 1998; Jiao, 2010). Under the influence of the structure of family-state isomorphism in Confucian cultural tradition and the "paternalistic" type of state authority (Qiu and Xu, 2004), government officials are regarded as "parental officials" by the public. The relationship between the government and the people is naturally defined by the society as the "officials-civilians" relationship (Wu 2007; He and Wang 2012b). Regarding this, Guo also stated the following.

We trust the government. Its purpose is to "serve the people." My petition is mainly about telling the current difficulties of my family. My family worked so hard to earn this money. We just wanted to increase a little income and solve some small problems in our lives. We have all been pinching and scraping. Yet we were unexpectedly treated in this way — we did not mean to say who is not good, we can only say that we support our mayor and government... We are all very honest. (Interview, 20140810)

Combined with the content of the aforementioned petition letter, we find that the people's discourse carries the cultural understanding and expectation of government responsibility. Although the populace may use a deterrent tactic to ask the government to solve its problems, it will still use plenty of words to state its difficulties and grievances and put the government in a position of a "life-saving" "parental official." This conceptual understanding and habits of the populace have become a stable institutional environment that the local government faces in the process of economic and social governance. In this respect, the head in the district finance office said the following with a strong feeling.

If these disputes happened outside the service center, the people who suffered the loss would have still come to complain and ask the government for our help. No matter if it were related to the service center or not, they would still come to us. After all, these people knew that this was a risky investment, and in the end the benefit will be theirs, not the government's... The municipal government also considered not assuming responsibility, but when people have disputes they always come to the government. When the common people have an issue, they always want to ask the government first. (Interview, 20140813)

For the populace, the law is not the only way to resolve disputes, and it has never even been the primary institutional approach. The populace is full of expectation regarding the government's responsibility, and the boundary of the government's responsibility is very vague. If the government is unwilling or unable to solve a problem, it might provoke public doubt or dissatisfaction. This constitutes the cultural root of risk transformation. Therefore, even if the service center does not have a government background, risk transformation could still occur. In my case, the service center happened to have a government background, which further increased the likelihood of risk transformation.

From neutralization to intervention: the logic of the government's response

Facing risk transformation, why do the local governments not adhere to the rule of law but choose instead to intervene in disputes and mobilize resources to accelerate processing? According to my explanatory framework, there are two particularly important factors, namely, the intensity of potential political risk perceived by the government and the government's sensitivity to political risk. In the following interview, a director of the financial office said that the government's response to the situation was very contingent and would vary depending on the developing trend of risk transformation. It is in this sense that the rule of risk-sharing in practice was unsure (Zhang, 2003).

According to common sense, the government does not have to solve the problem, but due to the special regime of our country and the government background of the service center, the people will always ask for the government to solve their problems. It also depends on the petitioner's degree of persistence. If they hold on consistently and persistently, the government has to solve the problem... No matter if the service center is involved or not, they petition to the government, just like people always petition to the government, even if they are involved in cases involving illegal fund-raising. In this situation, they may be unreasonable, but they nonetheless appeal to the government for help... In order to maintain social stability, when petitioners refrain from making a terrible scene we will guide them through the judicial path according to the normal regulations. As long as the people do not petition, the government will not intervene ... Just like in this case, if the government refused to help him with coordination, he said he would demonstrate outside the municipal government, after which our leaders must have felt the pressure. (Interview, 20140727)

Thus, it can be seen that the logic of the government's response is not only legal logic but also, to a larger extent, political logic. Under normal circumstances, the government usually chooses to be neutral. That is, it requires market players to resolve disputes through legal channels. Only when facing higher political risks does the government choose to intervene. In reality, the logic of the government's response is well known by the public. The following interview shows that both the lenders themselves and the business staff of the Tengfei Company were well aware of this logic. By knowing it, even the company helped to push the developing trend for risk transformation.

The lender continued to make a big disturbance, so we suggested two ways to him. One was litigation, and the other was a petition to the service center. This is because these two ways have nothing to do with us, we [the Tengfei company] are not affiliated with the government, and the financial office can't control us. Before [Guo] petitioning the municipal government, the court did not want to be involved and didn't work on his case, and so we told the lender to write a petition letter to the municipal government, as they would certainly give him a solution. The party secretary informed two courts and requested them to resolve the dispute quickly... If he made a big disturbance, they would help him to solve the problem immediately. After all, they have to maintain social stability... The operation of the service center does not follow legal logic. (Interview, 20140804).

In summary, under the premise that the Chinese local governments are highly sensitive to political stability, the main factor that affects the local government's choice to intervene in transaction disputes is the perceived intensity of political risk. In this case, Guo continued to petition the service center, the district government, and the municipal government. His description of a "family ruined" as the consequence and his use of the deterrence discourse about the failure of Wenzhou's financial reform put pressure on the local government. At that time, the service center just opened and if the government did not resolve Guo's loan dispute properly, it would likely instigate more intense discontent and petitions, with possible diffusion—a signal of bad political performance in financial reform (Spence 1973; Zhou, 2005). Thus, officials felt high political risk intensity and the possible great loss of political credits. In this context, the local government had no choice but to intervene and quickly solve this loan dispute.

Conclusions and discussion

This paper takes a loan dispute at the Wenzhou Private Lending Service Center as an example to discuss the issue of government intervention in market governance, that is, why would a local government that claims to be a rule maker or market regulator intervene deeply in the transaction disputes between market players? Based on the institutional analysis in the fields of sociology and economics, this article examines the governance activities of local the government in a broader institutional environment and constructs a theoretical framework of risk transformation. The study shows that the process of government intervention in transaction disputes involves two aspects: the transformation of economic risk into political risk and the government's response to the transformation of risk. The completeness of the law, the relationship between the government and market players, and the government's ability to withdraw from society are the three structural factors that affect risk transformation. When there is potential risk transformation, the greater the potential political risks perceived by the government, the more likely it is for the government to intervene in transaction disputes. Applying this analytical framework to interpret the loan dispute at the Wenzhou Private Lending Service Center, I find that the government intervened in the loan dispute because the institutional environment of the imperfect private financial law, the government's low ability to withdraw from society, and the mixed governance structure of the service center readily caused the transformation of loan risk into political risk. When the intensity of political risk grew too high, the government chose to intervene in the dispute.

This article provides a new focus and an analytical approach for studying the role of local government in market transformation, including three aspects. First, the local government plays different roles in the market. The local government may participate in economic activities with other market players, playing the role of benefit-sharing, but it may also be brought into transaction disputes, playing the role of risk-sharing. Moreover, there are subtle correlations between the two roles. That is, the pre-intervention of the local government in market activities in the early stage is often an important reason that the government is brought into transaction disputes in the later period. Second, there is a bilateral definition of the market role of the local government. The market role of the local government is not only defined by governmental behavior but also shaped by the interaction between market players and the government. Whether

the local government intervenes in transaction disputes or shares economic risk is closely related to the risk transformation behavior of market players, which is dynamic and situational. Third, we need to consider multi-faceted institutional logic when we come to define the market role of the local government (Friedland and Alford 1991; Zhou and Ai, 2010). Multi-faceted institutional logic includes not only the top-down fiscal or administrative incentives but also the bottom-up social norms or cultural constraints. The different combinations of these types of institutional logic have different influences on risk transformation, shaping the market role of the local government. It is worth pointing out that this study does not intend to replace existing research, but supplements the existing analysis of the Chinese government-market relations with a perspective of risk transformation.

Compared with the existing abstract and comprehensive analysis paradigm in the sociology of market, this article constructs a logical chain of “structural factors-risk transformation/government intervention-risk sharing,” which guides a concrete analysis for us to understand the social construction of the market system. The framework is mainly embodied in three aspects. First, the market is a social construction of inherent risk-sharing rules. The risk-sharing rules include both the rules about assuming risks oneself based on legal principles and the rules based on social norms or cultural perceptions (Scott 2010). The actual rules depend on the relationship and the interactions between the government, business, and the populace. Second, the government is embedded in the market. It is an important part of the market and a potential risk-sharing party that is always present. Nevertheless, always being present does not mean that the government will always share the economic risks of market players. Whether the government intervenes in transaction disputes and shares economic risk is affected by many factors. Among them, the transformation from economic risk into political risk is an important one. Third, market operations are embedded in a wider institutional environment that includes many dimensions such as the completeness of the law and the government’s ability to withdraw. Through different mechanisms, the institutional environment with different dimensions affects the interactional process between government, business, and the populace (especially in the circumstances of risk transformation and the government’s choice of response), and it causes risk-sharing rules to appear uncertain.

For future research, this article suggests that the market governance process of the local government is a gray area in the existing research, and it is a black box that needs to be opened. From the perspective of risk transformation, we can study the shift of government-market boundary and the formation and evolution of economic risk-sharing rules. Regarding the analytical approach, this article argues that it is necessary to observe the market governance of the local government in the institutional environment. It is necessary to differentiate the different governance activities of the government in the market by using an inherently consistent analytical framework; it is necessary to study the formation and evolution of market transaction rules (such as risk-sharing rules) in the relationship between the institutional environment and governance structures. In this way, we can incorporate the macro-institutional environment, the governance structure, and the micro-interaction rules to provide an analytical framework for studying the formation of the order in a rapidly changing society.

Abbreviations

P2P: Peer to Peer; Tengfei Company: Tengfei Economic Information Consulting Co., Ltd.; Service center: Wenzhou Private Lending Service Center

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Authors' contributions

The author himself carried out the research design, data collection, and paper writing and revision. All authors read and approved the final manuscript.

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