

Sociology 190
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Financialization and Globalization

We live in a world dominated by finance. Financial news dominates the business press. The management of American corporations, large and small is driven by Wall Street criteria that emphasizes increasing the stock price and pushes corporate executives to manage towards that end. As consumers, we are now expected to have sufficient financial literacy to manage our health care, our retirement, and our household expenditures. Financialization has also been at the core of the growth in income inequality in the U.S. in the past 40 years. The top 1% of the income and wealth distributions has seen their shares of national income grow incredibly. This has been both indirect, through the strategies used by corporations to lower their wage costs like the use of technology, off shoring and outsourcing, and more direct as the profits of corporations have ended up in the hands of a smaller and smaller group of top managers and those who work in the financial sector. The recent financial crisis has demonstrated how financial machinations have superseded any other productive activity in the U.S. economy. This course explores how the financial sector of the economy, the financialization of corporations, and the financialization of everyday life in the past 30 years has evolved. We also consider how finance has gone global and how it now dominates life in Western Europe and Asia and is at least part of what we mean when we use the term globalization.

This is an ambitious agenda for one class for one semester. The outpouring of scholarship on these topics is enormous and this means we can only touch the surface of some of the most important issues of our times. What I have chosen to highlight and what might be left out?

I have chosen to focus on materials written quite recently, many of which were in response to the financial crisis (indeed, only two of the papers and chapters we will read was written before 2000 and most of them were written after 2004). I have offered you serious academic work but tried to lighten it with either more journalistic accounts or books written by academics that are intended for broader audiences. In terms of what is left out, the works I have selected have not tried to go much beyond the past 40 years of history in the American and world economy. I have stayed away from long historical accounts or works so general as to be

unfocussed on the themes I want to emphasize in the class. There is also more in the class that describes the workings of modern American corporations, modern finance, and how it has affected our lives. Because of this, there is less about political economy in general and the role of government and regulation in financial markets.

Why have I made these choices? Studying the transformation of the American economy and in particular its links to finance is a big and important task. I hope that you leave this class with an appreciation with the complexity of the American economy and the dilemmas that face our future. While economic growth has returned from the dark days of the financial crisis, the slow recovery of the American economy has not been enough to help increase incomes and close the gap between the rich and everyone else.

At the core of where America is right now, is the problem of income and wealth inequality. The American political system has been warring between those who want to maintain the privilege of the groups who have most benefitted from financialization and globalization and those who want the “winners” to pick up more of the costs of running our society. This conflict has often been obfuscated by arguments that the real political issue is the size of the federal debt and the presumed generosity of the welfare state towards those who don’t deserve help (immigrants and minorities). But the American welfare state has not kept pace with changes in inequality and indeed as we shall see, the tax system and social spending have been greatly tilted towards those who are richer since the 1980s.

One way in which many American households have tried to make do in the face of this increasing inequality is to go further into debt. The massive increase in credit available to the American public since the early 1990s is the flip side of the transformation of American business and the rise of the financial sector. But here too, we can see that the wealthy have benefitted. For those at the top, financialization has become a way of life, a way in which they manage their assets and portfolios and create value for themselves. For those at the bottom, freely available credit is one of the few lifelines in an otherwise dismal story of increasing income inequality.

But this is only the American side of the story. Financialization has spread through much of the rest of the world through the incredible expansion of the world’s financial markets. Globalization means many things: the spread of capitalism to parts of the world where it previously did not exist (China, Russia, and eastern Europe), the search for new markets by western firms that have found their home markets stagnant, the rapid development of the so called BRICS (Brazil, Russia, India, and China), and perhaps most importantly, the spread of global finance whereby money flows towards places where investors can make the highest rates of profit.

In a short class, we will barely make a stab at understanding global finance. To understand financialization and global finance, one must descend into the world of financial products. Fortunately, the sociology of finance has rapidly evolved in the past 10 years to

provide us with accounts of what financial products are, where they come from, and how they create such large and liquid markets. We will also read some descriptions of how participants in global financial markets manage the massive flows of capital. We will also consider the role of economics and economists in providing the tools to create new financial products.

We will discuss the financial crisis which began in the United States and engulfed the whole of the developing world. The story of how this happened is intriguing. It requires you to understand first that the world's largest banks all had come to focus their attention on American mortgage backed securities as the main product by which they were making profits. This means that these banks were all participants in the same market as their U.S. counterparts. We will read a gripping description of how the collapse of Bear Stearns, Countrywide Financial, Fannie Mae, Freddie Mac, and finally, Lehman Brothers precipitated a world-wide meltdown in less than 10 weeks in the fall of 2008. We will read a paper that provides quantitative evidence to back up that story. We will also consider what caused banks to commit predatory lending and securities fraud. As there were fewer and fewer mortgages to package into securities, the market for mortgages became more competitive. This drove banks to engage in predatory lending mainly to people who had subprime mortgages. These bad mortgages were then packaged into securities thereby precipitating securities fraud. The largest and most integrated banks were the ones who committed the most crimes.

Class Assignments

The Sociology 190 classes are seen as a capstone to your career at Berkeley. The Department wants to give each of you a chance to be in a seminar that is focused on an interesting topic where you get to read cutting edge material. Our goal is for you to understand what research is and how scholars operate in their debates with one another. The assignments in this class include: help to lead the group discussion, write four short responses to the readings, and most importantly, produce a research paper on a topic of your choosing. Let me motivate the assignments.

Scholarly debates are often contentious. Scholars often have organized a literature focused on a problem and try and make theoretical and empirical interventions in order to advance the literature. One goal of such efforts is to "test" theories, usually against each other. Another is to advance a sociological account of some important social facts. I have chosen readings that try and raise big issues, review large literatures, and produce some theoretical or empirical conclusion. They are not all easy to read and you may not get what the author is doing.

The purpose of class is to collectively puzzle out what the authors are trying to say. My intention is to lecture the first day of class but after that, I want to work to facilitate a discussion

where a large number of you participate every week. I have chosen works that are sometimes complementary, but also contradictory. Your assignment is to try and piece together what the big issues are, what opinions the authors hold, and lastly to think about whether or not you think the author has convinced you that they are right. But before you can do this, you have to be confident you understand the argument the author is making.

Seminars can be an efficient way for groups of students to air out their questions about readings, try out interpretations of arguments, and hopefully push forward their individual and collective understanding of the texts. In order to facilitate discussion and get more student participation, I will ask two students to lead each of our class discussions. I will reserve the first slot on my Monday 4-6 office hours for the students to meet with me to discuss what they will do on Tuesday. Your successful participation in being part of leading a discussion will count towards 10% of your grade.

I will also ask each of you to write me a short memo on four of the readings. Each of the memos will count as 5% of your grade for a total of 20% of your grade. These should be one to two pages long (double spaced) responses to the readings. In a reading memo, I will ask you to take one or more of the readings for a particular week, explicate a point of interest, to perhaps juxtapose the readings if they offer different viewpoints, offer some criticism, or use them to reflect on a real life situation. The memos are due on **September 20, October 4, October 18, and Nov. 8.**

The last two weeks of class will be set up for students to make presentations on their papers. This will count for 20% of your grade. 10% of the grade will be based on your attendance in class for all three days and 10% on your presentation. If you miss either of the last two classes you will get no credit for attendance.

The most important assignment in the class is the research paper, accounting for 50% of your grade. I will ask you to work on the paper over the course of the semester. I will ask that you prepare a memo outlining the topic of your research paper that will be due in class on **October 13.** This memo will count for 5% of your grade. I will ask for a second memo with a list of your bibliographic references due on **November 1** that will also count for 5% of your grade. I will ask to see a rough draft of your paper in class on **November 15.** A final version of your paper will be due in my mailbox in Barrows Hall on Monday **December 12** by 4 P.M. and it will count for 50% of your grade. For the research paper assignments, there will be a single grade reduction for every day a paper is late.

Readings

Two books have been ordered for this class:

K. Ho. 2009. Liquidated. Duke University Press: Durham, N.C.

G. Davis. 2009. Managed by the Markets. Oxford University Press: New York.

I will also put the readings up on B-Courses. There will be a hard copy reader that can be purchased at University Copy Service, 2425 Channing, 510-549-2335.

Course Schedule

Introduction

August 30 Introduction

September 6 What is financialization?

Krippner. 2011. "What is financialization?" Ch. 2 in Capitalizing on Crisis, Harvard University Press: Cambridge, Ma.

J. Froud, et. al. 2008. "Financialization, coupon poll, and conjuncture" Pp. 1-43 In I. Erturk, et. al., Financialization at Work, London: Routledge.

G. Davis. 2009. "The new financial capitalism" Ch. 1 in Managed by the Markets, Oxford University Press: New York.

September 13 Why did it start and why did it happen?

D. Zorn et. al., 2005. "Managing investors: how financial markets re-shaped firms." Pp. 269-89 in K Knorr Cetina and A. Preda (ed.) The Sociology of Financial Markets, New York: Oxford University Press.

G. Krippner. 2011. "The Reagan Administration discovers the Global Economy", Ch. 4 in Capitalizing on Crisis, Harvard University Press: Cambridge, Ma.

D. Tomaskovic-Devey and K. Lin. 2012. "Income dynamics, economic rents, and the financialization of the American economy." American Sociological Review 76: 538-59.

September 20 Financialization, American households, and Income Inequality

T. Volscho and N. Kelley. 2012. "The rise of the super-rich: power resources, taxes, financial markets, and the dynamics of the top 1 percent, 1949-2008". American Sociological Review 77:679-700.

G. Davis. 2009. "From employee and citizen to investor: how talent, friends, and homes became capital", Ch. 6 (Pp. 190-234) in Managed by the Markets, Oxford University Press: New York.

N. Fligstein and A. Goldstein "The emergence of a finance culture in American households, 1989-2007" Socio-Economic Review 13: 575-601, 2015.

September 27 Financial Instruments I: Securitization and Financialization

B. Carruthers and J.C. Kim. 2011. "The sociology of finance." Annual Review of Sociology 37: 239-259.

B. Carruthers and A. Stinchcombe. 1999. "The social structure of liquidity: flexibility, markets, and states." Theory and Society 28:253-82.

G. Davis, 2009. "From Markets to banks". Ch. 4 (Pp. 102-153) in Managed by the Markets, Oxford University Press: New York.

October 4 Financial instruments II: Models and Markets

D. MacKenzie and Y. Millo. 2003. "Constructing a Market, Performing Theory: The Historical Sociology of a Financial Derivatives Exchange". American Journal of Sociology 109: 107-145.

D. Beunza and D. Stark. 2004. "Tools of the trade: the socio-technology of arbitrage in a trading room." Industrial and Corporate Change 13:369-400.

D. MacKenzie. 2005. "How a superportfolio emerges: Long Term Capital Management and the sociology of arbitrage". Pp. 62-84 in K. Knorr Cetina and A. Preda (ed.) The Sociology of Financial Markets. New York: Oxford University Press.

October 11 The Global Financial System I: The political economy of global finance

J. Tobin. 1999. "Financial globalization." Cowles Foundation Paper 981. Yale University: New Haven, Ct.

P. Hirst and G. Thompson. 1999. "Globalization and the history of the international economy." Ch. 2 in Globalization in Question, Polity Press: London, U.K.

H. Schwartz. 2009. "Global capital flows and the absence of constraints." Ch. 2 in Subprime Nation, Cornell University Press: Ithaca, N.Y.

October 18 The Global Financial System II: What is global finance?

S. Sassen. 2005. "The embeddedness of financial markets." Pp. 17-37 in K. Knorr Cetina and A. Preda (ed.) The Sociology of Financial Markets. New York: Oxford University Press.

K. Knorr Cetina. 2005. "How are global markets global?" Pp. 38-61 in K. Knorr Cetina and A. Preda (ed.) The Sociology of Financial Markets. New York: Oxford University Press.

Leyshon, A. and N. Thrift. 2007. "The capitalization of almost everything." Theory, Culture, and Society 24: 97-115.

October 25 Financialization and the global financial crisis

G. Tett. 2009. Ch. 11-12 (Pp. 167-91), 14-15 (Pp. 2154-42). Fool's Gold. New York: Simon and Schuster.

N. Fligstein and J. Habinek. 2014. "Sucker punched by the invisible hand: the world financial markets and the globalization of the US mortgage crisis." Socio-Economic Review 12, 637-665.

November 1 Financialization and fraud in the mortgage securitization crisis

James William Coleman. 1987. "Toward an Integrated Theory of White-Collar Crime." American Journal of Sociology 93: 406-439.

N. Fligstein and A. Roehrkasse. 2014. "The Causes of Predatory Lending and Fraud in the Financial Crisis."

J. Rakoff. 2014. "The Financial Crisis: Why have no high level executives been prosecuted?" New York Review of Books, January 9, 2014, pp. 1-12.

November 8 Working for finance: I

K. Ho. 2009. Liquidated. Durham, N.C.: Duke University Press. Introduction and ch. 1

November 15 Working for finance: II

K. Ho. 2009. Liquidated. Ch. 6 and 7.

November 22 Class Presentations

November 29 Class Presentations

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Research Paper

The main assignment for this class is for you to do some in depth research on a topic of interest to you around the themes of Financialization and Globalization. The goal is for you to produce a 12-15 page paper that will pose a research question, delve into the relevant literature in order to lay out the various theoretical positions in the literature and assess some of the empirical results, and draw a conclusion as to the main answer to your question.

I do not expect you to do original research: i.e. interview people, collect survey data, or spend time in archives. Depending on what project you choose, it might be possible to gather some original data, but not necessary. Instead, I want you to read the relevant scholarly debate on the topic in which you are interested. This means finding the literature and reading both the theoretical and empirical literature. To make this assignment more concrete, let me walk you through the steps of the project.

Choosing a Research Topic

The most difficult task most of you will have is to decide to choose a topic that is narrow enough for you to research but interesting enough, that you can do something of interest to you. One of the most difficult problems is that I want you to begin to frame your project by the third week of class, at a point, where you will still be reading about financialization. Let me suggest some potential topics. Feel free to use these topics, modify them, or ignore them all together.

1. What is the role of economists and economic theory in the construction of financial markets in general or particular markets such as options and derivatives?
2. How did various kinds of financial deregulation make financial markets riskier in the past 30 years?
3. What is neoliberalism and how does it relate to financialization?
4. Why did different countries have different experiences of the financial meltdown? For example, why did Canada suffer virtual no financial crisis while its main trading partner, the U.S. almost had a Depression?

5. Has the growth of easy credit in the U.S. made the effects of income inequality better or worse for American citizens?
6. Were the poor and different racial and ethnic groups taken advantage of by the expansion of the subprime market for home mortgages?
7. How has the emergence of “shareholder value” as the main goal of corporations affected income and wealth inequality in the U.S.?
8. Why did the people who worked on Wall Street fail to see the financial disaster of 2007-08?
9. What is the relationship between the activities of the financial markets and the “real” economy?
10. How has the rise of global financial markets helped and hurt developing countries?

The assignment due in class on October 13 should be 1-2 double spaced pages long. It should start with a paragraph describing your research question. Phrase your question as succinctly as possible ideally in 25 words or less. The important thing is to make an attempt at moving from an “area of research” or a “topic” to a research question, a statement of a specific puzzle to be solved or question to be answered by your research. Explain why your research question is important and what theoretical implications it might have. If you have already done some reading, discuss briefly how your ideas fit in with what you have read so far. Consider what different sociological literatures might be relevant to your project. What argument would you like to be able to make? Thinking about this can be a useful way of getting your agenda out into the open.

I encourage you to sign up for my office hours to discuss your projects.

Constructing a Literature Review

The next step in this process will be to gather together the relevant literature. I ask that you find at least 5 reference works for your project. These works can be academic books, papers, or reports by governments and other kinds of organizations. Newspapers and blogs do not count as citations, although feel free to use such sources to provide context for your question. Your literature review should include the author, the title of the work, and a sentence or two on its relevance to your paper. This assignment should be 1-2 double spaced pages maximum. It will be due in class on November 3.

I can help you find literature depending on the topic. Feel free to use whatever sources you can find. Google Scholar is a good place to start. Many of the topics you are likely to

research have been extensively researched. The challenge will be cutting back your topic and gaining some control over the literature. If you are having problems locating literature, please come to my office hours and we can discuss that.

The Structure of the Final Paper

The final paper should have a title page (1 page), contain an introduction motivating the paper (2-3 pages), present the relevant research summary (8-10 pages), a short conclusion (1-2 pages), and your bibliography (1-2 pages). You should include a bibliography using standard journal formats. Citations in the text should use journal format (i.e. Jones, 1998). Please use footnotes sparingly.

Your rough draft should follow this format as well.

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How to Read Hard Materials and Prepare for Class

Many of the readings are difficult. They selections are long and we are going to cover an enormous amount of material in a very short period of time. Unfortunately, there is not much to be done about this. As such, I suggest you get a head start and keep ahead of the readings. I ask that you come to class with at least one question or comment on one of the readings. I may call on students to come forth with their question/opinion.

As you read, you should think about: 1) what is the author's argument? 2) does it make sense? 3) how does it fit in with the other things we have read? Consider the following questions as you read the text.

1. With whom is the author arguing?
2. What is the position the author is arguing for?
3. How would we use this to understand other phenomena?

After reading the texts, you should be able to make a short version of the author's main argument. If you do not understand it, you should try to come to class and frame your question to the group.

How to Structure a Class Discussion

At each class, there will be two students who will act as facilitators for the discussion. When your turn comes, I will set up a meeting with you in my office hours on Monday at 4:00-4:20 before your Tuesday session. My basic suggestion is to divide up the works. A good format is to create a set of questions that you would like to discuss with the group. In class, it makes sense to have the room divide up into smaller groups and discuss the question. Then, the smaller groups can get back together for a larger discussion.