

Sociology 120
Professor Neil Fligstein
Tu Th 12:30-2:00
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Final Exam Group 15 Thursday May 16, 3:00-6:00 PM

Economy and Society

Economic sociology is concerned with all aspects of material life. This includes the organization of production and consumption. The key idea in economic sociology is that the economy is “embedded” in society. This provocative statement implies a whole host of things. Markets are social constructions that depend on firms, governments, law, culture, and trust for their construction. The price mechanism itself is not independent of the social relations in and around markets but structured by them. Markets also require elaborate market devices to allow buyers and sellers to evaluate the qualities of goods and services and structure transactions. Governments play an important role in the construction of markets by providing laws, policies, property rights, and rules regarding competition and exchange. While everything that governments do is not necessarily good for market production, modern markets could not exist without governments. Finally, the act of consumption is not just to fulfill needs, but to make a statement about who we are, who we are not, and what our social status is.

I want to say upfront that I am a big fan of market society. Market society has produced a better standard of living and longer and healthier lives for large numbers of people here and around the world. It continues to create transformative products that make our lives more interesting, meaningful, healthy, and secure. But making sociological sense of market society and its potential upsides and downsides requires an economic sociology. The past 30 years have witnessed the emergence of such a field.

In the beginning the field was driven by proving that many of the key neoclassical economic arguments were wrong as they inaccurately characterized how markets worked. These attacks on economic views have mainly come from organizational theory, political economy, social stratification, science studies, and cultural sociology. I also note that within economics, there is much criticism of modern economics as well. In many ways, the cutting edge of the economics profession has given up on neoclassical theory and they have become.....sociologists!

Unfortunately, neoclassical theory still has both an ideological and political hold on modern societies. Neoliberalism, free trade (defined as a lack of regulations), and the Washington consensus (which focuses on implementing deregulatory policies to developing countries) are sold to governments across the world as the path to economic development and the way to lead to the reduction of human suffering. The evidence for the negative effects of such projects is too depressing to consider. For those who think the Washington consensus or neoliberalism are dead, I only point out that in the 2007-2009 economic crisis, governments in all advanced industrial economies in the face of recession and high unemployment imposed versions of austerity on their publics by cutting back on the size of government and the generosity of social benefits.

My view is that sociology can play a positive role in these discussions. This can work in two ways. First, sociologists are well placed to de-bunk economists' myths about how particular markets work independent of social relations and government intervention. This act of de-bunking should be popularized to make citizens aware of how important government and ongoing social relationships are to the functioning of the economy. Indeed, modern markets depend on government, civil peace, and law to exist.

The idea that there is a positive role for government in markets and social structures exist in markets to allow markets to function is not that radical a position to take in 2019. The interesting question to ask, is when do these interventions result in positive outcomes for society and when do they result in negative outcomes? Economists historically have viewed these features of markets as bad and indicating market frictions or inefficiencies. They have tended to emphasize the good effects of markets over the bad and asserted that getting rid of government and social ties of all kinds would aid in creating efficient outcomes. But more recently economists have come to the opposite conclusion, that networks, firms, institutions, and governments have important and mainly positive roles in economic development.

It seems to me that sociology, with its emphasis on understanding the empirical world can maintain a healthy skepticism about both the positive and negative aspects of market society. By theorizing what those might be, sociology can provide citizens and policymakers with tools to analyze particular market building projects with an eye towards understanding when social relations and government intervention appear to be rent seeking and when they appear to aid positive economic growth. At their core, markets are a form of social power and the real question is whether or not one group gets to benefit from the distribution of goods and services produced in a disproportionate fashion.

My goal is for you to leave this course with a set of intellectual tools to analyze real markets. These tools will make you able to read the newspaper more intelligently, participate in political life in a more knowledgeable way, and understand how the organization you work for (whether public or private) fits into the broader set of fields in which it is situated. Over the course of the semester, I will send the class things I have found in the media that are illustrative of things we are talking about and hope to structure some of our class sessions around these

issues.

We begin the class by laying out some of the tools of the new economic sociology. We consider how sociologists have thought of markets and how markets require states and institutions to make them operate. We discuss how the distribution of power in society amongst labor, capital, and the state has produced different kinds of market rules and as a result different market dynamics. We then turn to a discussion of how particular markets come into existence and create stable worlds. In doing so, we consider the social structuring of markets by networks and the use of market devices to create new products and markets.

We then use these tools to consider the current situation in the United States. We discuss how shareholder value capitalism, which dominates the American economy, arose, and how it works. We consider its effects on how the financialization of the American economy has changed politics, corporations, work, and the income distribution. There is a perception amongst some observers that work in the U.S. is threatened mostly by advanced technology like robots and AI. We show that the worse features of working in America (part time and insecure work, lack of health care and pension benefits) today are really the outcome of the power of shareholder value capitalism in the economy and government. To the degree that machines will replace human labor, in the U.S., it will be allowed to do so mostly to benefit those who own stock (i.e. capital). Shareholder value capitalism has seen the rise of the 1% and the collapse of opportunities for not only those at the bottom, but also those in the middle of the income distribution. In essence, shareholder value capitalism and financialization have worked to help capital extract more of the value from society and concentrates income and wealth in the hands of fewer and fewer citizens.

We then turn to using the sociological perspective that we have developed around the construction of markets to consider the social structuring of the two most dynamic and innovative sectors of the American economy: finance and the companies that dominate the internet (Facebook, Apple, Amazon, Microsoft, and Google, colloquially called “FAAMG” by stock analysts, and the acronym sometimes adds Netflix and Uber to make it virtually unpronounceable).

At the core of the shareholder value revolution is the growth of modern finance. Not only do financial entities control the market for corporate control, but banks and other financial institutions have been amongst the most active in creating new markets by producing new products, processes, and firms. Contemporary finance and its use of algorithms and financial instruments have created dynamic new markets, but produced occasional large scale crises here and abroad. The most obvious recent case is the financial crisis of 2007-2009. We consider how this crisis came about and spread around the world. We end with what has happened to finance since the crisis and the future of the American economy.

We then turn to the FAAMG. In a little over 20 years, these firms have come to dominate the American economy in a way that is unprecedented. We use the sociological market model as a lens to understand how these firms organize markets through novel market devices. There is now a large number of critics of these firms who suggest that the increasing concentration of

market power and the increasing ability of these firms to control information in the American economy is so serious that the antitrust authorities ought to consider breaking them up.

The last section of the class takes up the issue of globalization, neoliberalism, and global finance. Globalization refers to three things: the increase in global trade, the rise of the newly rich (or more precisely middle class) Asian economies, and the emergence of global finance. We consider the evolution of the global political, military, and economic governance and America's place in that process. We consider the remarkable rise of China and its impact on that American created structure. President Trump has made trade one of his central issues. He argues that this system is no longer benefitting the U.S. We consider the ways in which he is right and wrong. We end by considering some future paths for American capitalism.

Class format

This class is set up as a lecture class. My lectures use the readings as their main source of information. The class assignments will be drawn from the readings and lectures as well. The good news is that we will have Graduate Student Instructors (GSIs) and run sections with a maximum of 25 students. This means that it will be possible for you to learn quite a bit in this class if you work at keeping up with the class on a week to week basis. Here is what I suggest. Learning is often about repetition. Multiple exposures to the same material in different settings and with different ways of absorbing the material make it more likely that you will grasp it.

In practice, this means you must do the readings before class. The readings are hard and I know there are lots of them. While you may not totally understand them, it will make the lectures more comprehensible. Then, you should go to section. Section will allow you to discuss what was said and ask questions about what you did not understand. The writing assignments and exams will further push you to express for yourself some of the issues at stake in the material. If you do all of this, you will be in a position to get the most out of the class.

Readings

There is one required text:

N. Fligstein. [The Architecture of Markets](#), Princeton University Press, 2001.

I will post the readings on B Courses.

Course Assignments

Your grade will be based on your attendance and participation in section (10%), two short papers that will be conceived and written in section (20% each for a total of 40%) and two exams, one in class midterm (25%) and one a final exam (25%).

We are fortunate in this class to have GSI sections. That means you will have the opportunity to discuss the materials in the class, once a week, with a GSI. GSI section meetings will be on Thursday. The sections are also scheduled for Tuesdays. When we begin to consider the writing assignments, the GSI will occasionally use those days for discussion of your papers. Section attendance is required and attendance and participation will count for 10% of your grade. Sections will begin meeting on Thursday January 31. Sections will not meet the week of the exam (March 5-7). They will resume on March 14. GSIs will schedule their office hours once the semester begins. They will hold office hours beginning the second week of classes.

One of the Sociology Department's initiatives in adding GSIs to a class was to try and give students the opportunity to write more. The main task of going to section is to give you an opportunity to ask questions about and discuss the material. But, there will be two short papers in the class that will be discussed in section. Each paper will be 5-7 pages long, double spaced and worth 20% of the grade. The section meetings will be set up for you to choose a topic, discuss it with the GSI, and produce an outline for the paper.

The first paper will be based on the materials in the first half of the class. It will be due on March 21. The second paper will be based on the materials on the financial crisis and will be due May 1. Late papers will be graded down one letter grade per day late.

There will be two exams each worth 25% of the grade. The exams will contain some multiple choice questions and some short answers. I will provide students with a list of potential questions before the exam. The first exam will be March 5 in class and the final exam is Thursday May 16, 3:00-6:00 PM. The exams are non-cumulative. The first exam will cover the sociological view of markets and the characterization of contemporary American capitalism as dominated by finance and shareholder value and the implications for work and inequality. The second will focus on the finance industry, the internet industry, and the section on globalization, the rise of China, trade, and the issue of global governance of the world economy.

Evidence of plagiarism or cheating will result in immediate failure in the class.

Class Sessions and Readings

January 22 Introduction

January 24 An Introduction to Economic Sociology

N. Fligstein. 2002. Ch. 1 in Architecture of Markets. Princeton, N.J.: Princeton University Press.

January 29 What is a sociological view of markets?- I States, Institutions, and Markets

N. Fligstein. 2002. Ch. 2-3 in Architecture of Markets

January 31 What is a sociological view of markets?-II Emergence, Stability, and transformation of markets

N. Fligstein. 2002. Ch. 4 in Architecture of Markets, ch. 4

February 5 What is a sociological view of markets?-III Networks and social structure

W. Powell and L. Smith-Laurel. 2004. "Networks and economic life" pp. 379-402 In N. Smelser and R. Swedberg (ed.) The Handbook of Economic Sociology, Russell Sage: New York.

February 7 What is a sociological view of markets?- IV Performativity and market devices

F. Muniesa, Y. Millo, and M. Callon. 2007. "An introduction to Market Devices." Pp. 1-13 in M. Callon, Y. Millo, and F. Muniesa (ed.) Market Devices. London: Blackwell Publishing.

D. MacKenzie. 2006. Ch. 1 "Performing Theory" in An Engine, Not a Camera, Princeton University Press.

February 12 What is financialization?

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

February 14 The Rise of the "Shareholder Value" corporation

M. Useem, 1993. Ch. 2,4 in Executive Defense, Harvard University Press, Cambridge, Ma., 1993

February 19 The Shareholder Value Conception of the Firm in the U.S.:

N. Fligstein. 2002. "The rise of the Shareholder Value Conception of the Firm", Ch. 7 in The Architecture of Markets.

February 21 Shareholder Value and the Reorganization of American business, 1980-2017

N. Fligstein and T. Shin. 2007. "Shareholder value and the transformation of the American economy". Sociological Forum 22: 399-424.

G. Grullon, Y. Larkin, and R. Michaely. 2017. "Are U.S. Industries Becoming More Concentrated?" Review of Finance.

February 26 Financialization and Inequality

J. Jung and F. Dobbin. 2015. "Finance and Institutional Investors", Ch. 3 in K Knorr Cetina and A. Preda (ed) The Sociology of Finance, Oxford University Press.

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.

February 28 The future of work under shareholder value capitalism

D. Weil. 2017. Ch. 3. The Fissured Workplace. Cambridge, Ma.: Harvard University Press.

T. Kochan and L. Dyer. 2017. Ch. 3 in Shaping the Future of Work, MIT Press.

March 5 Midterm exam

March 7 The Rise of Finance- What do Banks do? A Short History of Banking and Regulation

M. Sherman. 2009. "A Short History of Financial Deregulation in the U.S." Center for Economic Policy Research. Washington, D.C.

March 12 Financial Instruments and Financial Innovation

A. Kirilenko and A. Lo. 2013. "Moore's Law vs. Murphy's Law: Algorithmic Trading and its Discontents." Journal of Economic Perspectives 27:51-72.

March 14 The Role of Finance in the Financial Crisis, 2007-2009

N. Fligstein and A. Goldstein 2010. "The anatomy of the mortgage securitization crisis." In M. Lounsbury and P. Hirsch (ed.) Markets on Trial: The Economic Sociology of the Financial Crisis, Emerald Press.

March 19 The Role of Finance Instruments in the Financial Crisis

L. Kendall. 2000. "Securitization: a new era in American finance." Pp. 1-16 in L. Kendall and M. Fishman (ed.) A Primer on Securitization. Cambridge, Ma.: MIT Press.

W. S. Frame and L.J. White. 2017. "Technological Change, Financial Innovation, and Diffusion in Banking" in A.N. Berger, P. Molyneux, and J.O.S. Wilson, eds. The Oxford Handbook of Banking, Oxford, UK: Oxford University Press.

March 21 The Rise and Fall of the Subprime Market and Why it Almost took Down the World's Economy, 2001-2010

A. Goldstein and N. Fligstein. 2017. "Financial markets as production markets: the industrial roots of the mortgage meltdown". Socio-Economic Review 15: 483–510.

N. Fligstein and J. Habinek. 2014. "Sucker Punched by the Invisible Hand: The spread of the worldwide financial crisis, 2007-2009". Socio-Economic Review 12: 637-655.

March 25-29 Spring Break

April 2 The Rise of the Internet and FAAMG

T. Wu. 2015. Ch. 19-20 in The Master Switch. New York: Vintage Books.

April 4 How do FAAMG make money?

U. Dolata. 2017 "Apple, Amazon, Google, Facebook, Microsoft. Market Concentration – Competition – Innovation Strategies". Stuggart University: Research Contributions to Organizational Sociology and Innovation Studies 2017-01

April 9 The role of algorithms in the New Economy

F. Pasquale. 2015. "The hidden logics of search." Ch. 3 in The Black Box Society. Cambridge, Ma.: Harvard University Press.

April 11 Should the government go after FAAMG as monopolies?

T. Wu. 2018. "The Rise of the Tech Trusts." The Curse of Bigness. New York: Columbia Global Reports.

April 16: Globalization: How much? How far?

N. Fligstein. 2001. Architecture of Markets, Ch. 9

P. Evans and W. Sewell. 2013. "Neoliberalism: Policy regimes, international regimes, and social effects." Pp. 35-68 in P. Hall and M. Lamont Social Resilience in a Neoliberal World. Cambridge U.K.: Cambridge University Press._

April 18: Globalization: The Architecture of Global Trade and Finance

D. Rodrik. 2011. Ch. 4 in The Globalization Paradox, New York: Norton.

April 23: Globalization and the Rise of China

Y.Y. Ang. 2018. “Autocracy with Chinese Characteristics”. Foreign Affairs. May-June 39-46.

Y.Y. Ang. 2016. “Introduction”. How China Escaped the Poverty Trap. Ithaca, N.Y.: Cornell University Press.

April 25 Does the “New” Globalization and trade undermine the U.S. working class?

D. H. Autor, D. Dorn, and G. H. Hanson. 2016. “The China Shock: Learning From Labor Market Adjustment to Large Changes In Trade”. Cambridge, Ma.: NBER Working Paper 21906

D. H. Autor, D. Dorn and G. H. Hanson. 2015. “Untangling Trade and Technology: Evidence from Local Labor Markets”. The Economic Journal, 125 (May), 621–646

April 30: The Future of American Capitalism

A. Blinder. 2009. “How Many US Jobs Might be Offshorable?” World Economics 10: 41-78.

J. Tepper. 2019. Ch. 6 in The Myth of Capitalism. New York: Wiley.

May 2 Sociology and Economic Life: A conclusion

N. Fligstein, Ch. 10.

Paper Assignments

There will be two paper assignments for this course. The purpose of the papers is for you to be able to explore some topic in more depth. Each paper will count for 20% of the grade for a total of 40% of the grade. Papers that are turned in late will be graded down one letter grade each day they are late. We encourage you to meet the deadlines for the paragraph description for what you are going to do and the outline of the paper. We also encourage you to go to office hours if you are having trouble with the assignments. GSIs will discuss the assignments in Section. Here are the deadlines:

First paper

February 28 One paragraph describing your project
March 14 1-2 page outline of your paper due
March 21 5-7 page double spaced paper due

Second paper

April 17 One paragraph describing your project
April 24 1-2 page outline of your paper
May 1 5-7 page double spaced paper

First paper

The first paper should be drawn from materials in the course up until February 28 (the last lecture before the midterm exam). Here are some potential ideas for topics which you are free to modify or ignore:

1. What are the main conceptual tools that sociologists use to describe how markets are structured (i.e. government and law, market institutions that allow markets to generate trust and allow participants to trade, networks, and performativity)? How do these tools produce a more realistic view of how markets work?
2. How do the general political alignments in society (i.e. the relative power of government, business, and labor) operate to structure market institutions? Under what conditions would we expect that capture of market institutions would result in markets that operated to narrowly reward one party or another (i.e. rent seeking)?
3. The emergence of new markets. What are the roles of existing firms, entrepreneurs, and government in the constitution of new product markets? Where do new ideas come from and

how do they spread across firms?

4. MacKenzie argues that economic ideas helped structure the futures markets. How is it that ideas can be performed in markets? How do these kind of processes work? How do such ideas depend on already existing social structures?

5. How do networks and market devices operate to structure markets? When do they have positive and negative outcomes?

6. What were the causes of the rise of shareholder value capitalism? What market was transformed? How did this effect workers, managers, and the organization of firms?

7. What is the link between shareholder value and the rise of increasing levels of income inequality? Consider both the reorganization of firms and the role of government and politics.

8. How did shareholder value capitalism impact the organization of work for most Americans? What did people lose? What does the future hold?

Second paper

The second paper will be focused on the transformation of financial markets, the rise of the internet based economy, and how globalization has helped and hurt the American economy. Let me suggest a number of topics (again which you can modify or ignore).

1. What does finance do in society? How was finance organized before the 1980s and what was the impact of deregulation of finance?

2. What is financial innovation in product, processes, and organizational terms?

3. Describe the financial instruments involved in the financial crisis including mortgages, sub-prime mortgages, and mortgage backed securities, cdo, and cds. How was the crisis created by the production of these instruments?

2. Discuss how the banking industry became focused on the mortgage industry. Why did this happen? How did investment banks become more like commercial banks and savings and loan banks (and vice versa)? What was the role of the federal government and the government sponsored enterprises in this process?

3. Why did the U.S. mortgage crisis spread across the developed world?

4. Consider the rise of the internet giants, the FAAMG. What were their product, process, and organizational innovations?

5. Should the FAAMG be broken up or regulated? Make a case for and against this outcome.

6. How much globalization exists in trade and finance? What is the character of the “Triad” in world trade?
7. How was the world trade and financial system designed after World War II by the Americans? Who did it benefit? Why did it stop working?
8. What kinds of actions did the Chinese government undertake to promote the rapid development of China’s economy in the past 30 years?
9. Has trade, particularly with China, had a positive or negative impact on American jobs in the past 20 years?
10. Consider some of the futures of American capitalism? Will globalization and AI destroy the U.S. middle class even more and will the shareholders of large corporations continue to capture most of the gains?

Writing Short Papers

In this class, I am asking you to write two short papers. Since many of you have had little experience formulating your own work, it is useful for me to provide some guidelines for these assignments. I am asking that you do this in three stages: a one paragraph description of what you want to do, a 1-2 page outline of your paper, and a final paper that will be 5-7 pages of double spaced text.

The first thing you need to decide to do, is to choose a topic. I have given you some ideas about potential topics in my other handout. Feel free to use these topics or to supply one of your own. You will discuss topics in Section with the GSIs and they will offer collective advice to guide the group. You should also feel free to go to office hours with the GSIs to ask them to help you focus your topic.

Writing a single paragraph about a potential topic is more difficult than you think. Such a paragraph should begin by proposing what your question is. This will require you to situate the question in some issue. The paragraph should begin by introducing the issue. Then it should turn to outlining what the various perspectives are on the issue. Finally, it could list the topics necessary to discuss in order to arrive at a conclusion. One way to get a good idea about your paragraph is that it should look like an abstract to a paper (go to the readings and you will find some abstracts). To the degree that you have a thesis that you will defend, that should be included in your paragraph. The paragraph should be no longer than 200 words.

The next assignment is an outline. An outline should focus on deciding the topics of the sections of the paper. So, all of your papers should contain a one or two paragraph introduction describing the issue and what you intend to do (a slightly longer version of the one paragraph which you have already written). Then, you should construct the main sections of the paper. What these will be, will depend on exactly what your topic is. You should tell us in your outline what the sections are and what the main points are. Then, the paper should have a conclusion. A 5-7 page paper will have 10-20 paragraphs. If two are in the introduction and one is the conclusion, then that leaves you with 7-17 for your main sections. One way to think of an outline is to think about what are the major points that each paragraph or set of paragraphs will try to make.

One question you might have is do you need to find other references besides the materials in the reader and books? It is certainly possible for you to use only the materials prepared for the class. I am happy to have you find additional materials if it makes sense for your topic. In such a short paper, I would discourage you from going out to find too much material. If you find yourself citing more than five sources not in the readings, that probably means you have gone too

far. If you are having problems with this, please speak to the GSIs.

The final version of each of the papers should have the following format. I would like you to have your name, the class title, and a title for your paper at the top of the first page. I also ask that you use section headings like “Introduction” and “Conclusion” to separate the parts of the paper. Finally, you should cite sources in standard academic fashion. If you have a direct quote, end it with the name of the author, the year of the publication, and the page number of the quote in parentheses after the quote. If you are citing a source as an authority, put the name of the author and the year of the publication in parentheses at the end of the sentence. Here are some examples.

“The rain in Spain falls mainly on the plain” (Jones, 2011: 54).

The rain in Spain falls mainly on the plain (Jones, 2011). (Here, this is not a quote but a conclusion based on the text.)

Jones (2011: 54) says that the rain in Spain falls mainly on the plain.

I expect you to include a bibliography at the end of the paper that includes full citation to your sources. Your paper could have between 5 and 10 citations depending on the topic. The bibliography will not count against your 5-7 pages of text.

If you have any questions about the content of your paper or its format, please go to office hours or Section to ask your GSIs. If you are looking for more literature that they cannot help you on, please sign up for my office hours.

Any evidence of plagiarism will result in immediately failure of the class.