

Sociology 120
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Final Exam Group 13 Exam Due on May 11, 2023 at 4 PM

Economy and Society

Tu Th 11:00-12:30 Physics Building 4

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, networks, 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. First, economics has become more empirical and less theoretical. This means that Economists have recognized that the

concentration of economic power in a small number of firms has slowed down the economy, that the growing inequality in society is a result of the political power of the well off, and that the government is not always a force for rent seeking and evil and maybe, industrial policy done right can save the planet. In many ways, the cutting edge of the economics profession has given up on neoclassical theory and they have become.....sociologists!

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 that a wide variety of social structures exist in markets to allow markets to function is not that radical a position to take in 2022. 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. I want you to see the direct relevance of what I am teaching you to the issues of the day as they pertain to the economy and what we as citizens should expect from our policymakers. The class is structured to start out with theory. Then, we spend the rest of the time using the theory to make sense of some of the features of the most important aspects of the American and world economy. 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 that are going on right now and hope to structure some of our class sessions around these issues.

We begin the class by laying out some of the theoretical 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. All of the changes in stratification in American society can be traced back to the fact that shareholders (i.e. the owners of stocks and bonds) have disproportionately benefited from the way the economy has operated since the early 1980s. 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 since 1980: finance and the companies that dominate the internet (Facebook (now Meta), Apple, Amazon, Microsoft, and Google (now Alphabet), colloquially called “FAAMG” by stock analysts before the name changes, 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. We end with what has happened to finance since the crisis and the future of the American economy.

We then turn to the F(M)AAMG(A). 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. It turns out the whole system was designed by America to benefit America. What has gone wrong? We examine some of the evidence for the role of trade in displacing American workers. 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. There is a constant flow of relevant news that we will examine day to day with the intellectual tools we are developing. If you see something interesting forward it to me via email and if it works, I will use it. So, for example, the government has filed an antitrust law suit against Meta and Google. The European Union has also extracted large fines from these companies for anti-competitive behavior. Giving you intellectual tools to understanding events like this, is one of things this course is preparing you for.

I will also use film clips and a recent documentary on the social media platforms. I will start with an interpretation of what you are watching and should be looking for. I encourage you to watch the movie beforehand. *The Social Dilemma* on Netflix is free with your subscription. For those of you who like visual representation, there is a documentary called *The Inside Job* which covers some of the ground we cover on finance and the financial crisis. It might help in your getting to flesh out what happened by seeing interviews with people who were there. It is available on Amazon Prime for \$3.99.

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 bCourses.

Course Assignments

Your grade will be based on your attendance and participation in section (20%), three short papers that will be conceived and written in section (10% each for a total of 30%) and two exams, which will be take home exams, a mid-term (20%) and a final exam (30%).

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 Wednesday and Thursday. The sections are also scheduled for Mondays and Tuesdays, but they will not meet. 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 20% of your grade. Sections will begin meeting on Wednesday January 25 and Thursday January 26. Sections will not meet the week the exam is due (March 6-10). They will resume on Wednesday March 15. 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. To help that along, there will be three short papers in the class. Each paper will be 1-3 pages long, double spaced and each worth 10% of the grade.

The papers will take one of the ideas we develop in lecture, and apply it to current events. I will provide you with a short synopsis of the idea I am interested in you elaborating. Then I will provide you with 3-4 short news article that take up themes relevant to the idea. I will ask you to first, explicate the idea. Then consider the news articles and how the idea from class applies to what is happening. The first paper will be about the economic and political response to the COVID pandemic in the U.S. and Germany. The second paper will be about the emergence of the market for cryptocurrencies, a.k.a. Bitcoin. The third paper will consider the evolving role of finance in climate change. I will post the assignments on B-Courses.

There will be two exams, the mid-term worth 20% of the grade and the final exam 30%. The exams will be take home exams. I will give you three sets of questions from which you will

write one from each set. I expect your answers to be 1-3 pages for each question for a total of 3-9 pages, typed double spaced. The first exam will be given out on Tuesday February 28 and will be due on Tuesday March 7 by 4:00 PM PST. The final exam will be handed out on Thursday May 4 and will be due on Thursday May 11 by 4:00 PM PST. 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 issue of global governance of the world economy, and the role of trade in affecting the quality and quantity of U.S. jobs.

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

Class Sessions and Readings

January 17 Introduction

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

January 19 What is a sociological view of markets?- I- States, Institutions, and Markets

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

January 24 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

January 26 What is a sociological view of markets? II-Emergence, Stability and Transformation of markets, continued (Lecture will be recorded and on Zoom for this day only)

January 31 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 2 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 7 What is financialization?

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

February 9 The Rise of the “Shareholder Value” corporation

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

February 14 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 16 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 21 Financialization and 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.

February 23 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.

February 28 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 2 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.

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.

March 7 No Class- Midterm Exam due today

March 9 The Transformation of Mortgage Finance

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 14 The crisis and its causes

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

March 16 The Crisis (continued)

March 21 Lessons from the Crisis: The Banks Today and the Future of Regulation

March 23 The Rise of the Internet and the invention of the F(M)AAMG

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

March 27-31 Spring Break

April 4 How do FAAMG make money?

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

April 6 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 Movie in class: The Social Dilemma (available on Netflix)

April 13 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 18: 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 20: Globalization: The Architecture of Global Trade and Finance

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

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 27: 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.

Paper Assignments

There will be four paper assignments for this course. Each paper will count for 10% 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. I 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 due Friday Feb. 3 4:00 P.M.

Second paper due Friday Feb. 24 4:00 P.M.

Third Paper due Friday April 5 4:00 P.M.

The purpose of the short papers is to give you a chance to use the theories we are discussing to understand real world events. I will provide you with a description of the theoretical issue that I want you to use to inform your reading and a set of news articles that take up the issue in some context. Your job will be to briefly present the theoretical issue and then use that framework to help you provide a narrative for the news articles. My idea is for you to suggest what the theory might imply about the situation. Then, I ask you to read the articles to see if the theory illuminates what is going on. I will post the assignments and links for the newspaper articles on B-courses.

The paper is supposed to be quite short 1-3 pages (300-900 words). I would like you to have your name, the class title, and a title for your paper at the top of the first page. A paper two pages long will contain about 6 paragraphs. If you have an introductory paragraph and a concluding paragraph, that leaves you with four paragraphs to make your argument. For the first two papers, I will provide you with a lot of structure for the papers and for the last two papers, I will leave you to work more on your own. My goal is for you to be able to suggest what we know about how something works and apply those ideas to something going on in the world.

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 attributing something to an author, put their name, date, and page number in parentheses. If you are citing from one of the news articles, if the article has an author, cite the author, the date, and page number. If the news article does not have an author, cite the publication. Please have a bibliography with the list of list of publications at the end of the paper. A bibliography includes the name of the author, the date of the publication, the name of the publication, and where it is published. You only need to use the readings from the class or the lecture and the news articles I provide you. You do not need to find other sources.

Here are some examples.

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

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

“Jones said “The rain in Spain falls mainly on the plain.” (Wall Street Journal, 2020: 1).

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