

Sociology 120
Professor Neil Fligstein
Tu Th 2:00-3:30
101 Morgan

Office Hours: 4-6 Tu or by appointment
Barrows 452

Final Exam Group 2: Exam Monday May 12, 11:30-2:30

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 are imbued with morality that defines what can be bought and sold and who can participate. 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, and more 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.

Sociology emerged in the 19th and early 20th century as an attempt to make sense of modernity. Classical sociology contains a strong economic sociology component because the new capitalist economy was at the core of modern society. It also contained critical views of economic theory which purported to explain the new economy. Marx wrote Capital, Weber wrote Economy and Society, and Durkheim wrote The Division of Labor. All of them have criticisms of classical economics. During the 1930s-1960s in American sociology, this set of concerns languished. But, in the 1970s, with the return of neomarxism, political economy, and changes in organizational theory, modern approaches to economic life based in classical social theory, began

to evolve.

In the beginning what drove the field was the attempt to refute many key economic arguments with empirical data. 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 and in many ways the economics profession has given up on neoclassical theory.

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 current economic crisis, governments in all advanced industrial economies in the face of recession and high unemployment are in the process of scaling back the size of government.

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.

Even more important, sociologists can provide some set of theoretical tools to make sense of many of the conundrums of the modern world economy. The existence of social structures in and around markets and the intervention of government in markets is not that surprising a result. 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 even here, 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.

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 ideas, sometimes from economics, in creating new products and markets.

We then consider the current situation in the United States. We discuss how financialization, the increasing use of financial criteria to evaluate firms, markets, consumption, and saving spread in the U.S. in the past 30 years. We show how financialization has changed corporations, work, the income distribution, and how households produce and consume. One theme here is that the American economy has become financialized and this has primarily benefitted the better off. In essence, financialization helps 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 we have developed to consider recent financial crisis that was caused by the fall of the market for the securitization of mortgages. This perspective causes us to question many of the conventional wisdoms about what happened. We consider how this crisis has spread around the world. We end by considering what the collapse of the housing market means for the future of the American economy. The financial crisis has generated lots of press. If you want to listen to one version of the crisis, I recommend “The Giant Pool of Money” that aired on NPR’s This American Life.

<http://www.thisamericanlife.org/radio-archives/episode/355/the-giant-pool-of-money>

If you like movies, I suggest “Inside Job”, Charles Ferguson’s Academy Award winning documentary about the crisis. If you want a gripping fictional account (light on the analysis, but heavy on the drama), see “Margin Call.”

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 use the extant literature to show that while all have increased, governments remain firmly in control of their national economies. Indeed, we demonstrate how the effects of globalization vary widely in their outcomes across countries. We discuss global finance. We show that while there

has been a dramatic growth in financial flows, these too have occurred along national lines. We end by considering the future of capitalist societies and the issue of national and global governance.

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. 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 are two required texts:

N. Fligstein. The Architecture of Markets, Princeton University Press, 2001.

B. McLean and J. Nocera. All the Devils are Here. Penguin. 2010.

There will be a reader available at University Copy Service (2455 Channing Way, 549-2335 located at the south end of Sather Gate Shops passage). I will also post the readings on B Space if you do not want to buy a reader.

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, twice a week, with a GSI. Section attendance is required and attendance and participation will count for 10% of your grade. Sections will begin

meeting the week of January 28-30 (the second week of class). Sections will not meet the week after the midterm exam (March 6 and 11) but will resume on March 13. 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 sustained papers. 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 paper will be integrated into studying for the exam. Indeed, the topic of your paper will certainly be part of your preparing for the exams.

The first paper will be based on the materials in the first third of the class. It will be due on March 20 in Section. The second paper will be based on the materials on the financial crisis and will be due April 29 in Section. 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 4 in class and the final exam is Monday May 12, 11:30-2:30. 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 inequality and consumption. The second will focus on the financial crisis, 2007-2010 and the section on globalization, neoliberalism, global finance, and the issue of global governance of the world economy.

Class Sessions and Readings

Jan. 21 Introduction

Jan. 23 An Introduction to Economic Sociology

N. Fligstein, ch. 1

Jan. 28 What does neoclassical theory say about the organization of markets?

E. Roy Weintraub . "Neoclassical economics."

J. Williamson. "A Short History of the Washington Consensus."

Jan. 30 What is a sociological view of markets?- I Pre-conditions for markets

N. Fligstein, Architecture of Markets, ch. 2-3 Markets and politics

Feb. 4 What is a sociological view of markets?-I (continued) The emergence, stabilization, and transformation of markets

N. Fligstein, Architecture of Markets, ch. 3-4

Feb. 6 What is a sociological view of markets?-II Networks and social structure

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

Feb. 11 What is a sociological view of markets?-III The performativity of economics and the role of economic theory in creating markets

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

D. MacKenzie. 2012. "How a superportfolio emerges: Long Term Capital Management and the Sociology of Arbitrage" Pp. 62-83 in K. Knorr Cetina and A. Preda (ed.) The Sociology of Financial Markets. New York: Oxford University Press.

Feb. 13 What is financialization?

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

Feb. 18 Shareholder Value and Financialization

M. Useem, "The rise of shareholder power", ch. 2, Executive Defense, Harvard University Press, Cambridge, Ma., 1993

Feb. 20 The Shareholder Value Conception of the Firm in the U.S.:

M. Useem, "Intensified management of managers", ch. 4, Executive Defense, Harvard University Press, Cambridge, MA., 1993

N. Fligstein "The rise of the Shareholder Value Conception of the Firm", ch. 7 in The Architecture of Markets, 2001.

Feb. 25 Financialization and inequality- I

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.

Feb. 27 Financialization and Inequality- II

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." Paper presented at the Annual Meetings of the American Sociological Association, Denver, Co., August 2012.

March 4 Midterm exam

March 6 The Mortgage Securitization crisis: What happened and whodunit?

N. Fligstein and A. Goldstein "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, 2010.

March 11: The alphabet soup of mortgage products

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

Y. Smith. Chapter 9. "The Heart of Darkness." Econned. Palgrave, 2010.

B. McLean and J. Nocero, Ch. 8 in All the Devils Are Here, Penguin Press, 2010.

March 13 The emergence and expansion of securitization in the housing market in the U.S. 1966-1988

S. Quinn "Securitization and the state", Paper presented at the Annual Meetings of the American Sociological Association, Boston, Ma., Aug 4-8, 2008;

B. McLean and J. Nocero, Ch. 2 in All the Devils are Here, Penguin Press, 2010.

M. Lewis, Pp. 79-151 Liar's Poker. Penguin, 1989.

March 18 The Rise of the New Mortgage Market and the Origins of Subprime, 1988-2001

Reading: B. McLean and J. Nocero, Ch. 3-5 in All the Devils are Here, Penguin Press, 2010.

March 20 Complex Role of Government as Regulator and Participant, 1966-2010

B. McLean and J. Nocero, Ch. 6-7 in All the Devils are Here, Penguin Press, 2010.

S. Johnson. "Introduction". 13 Bankers. Pantheon, 2010

March 25-27 Spring Break

April 1 The Rise and Fall of the Subprime Market, 2001-2010

B. McLean and J. Nocero, Ch. 9,-10, 15-19 in All the Devils are Here, Penguin Press.

April 3: The Spread of the Crisis around the world

N. Fligstein and J. Habinek "Sucker Punched by the Invisible Hand: The spread of the worldwide financial crisis, 2007-2009".

April 8: Economic Sociology and Making Sense of the Financial Crisis: Questions that remain and the Future of the American Economy

April 10: Globalization: How much? How far?

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.

April 15 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 17: Globalization: The political economy of global finance: The U.S. and international finance

B. Gao. 2012. "The international monetary regime and domestic political economy". Pp. 318-338 in K. Knorr-Cetina and A. Preda (ed.) The Sociology of Finance. New York: Oxford.

April 22: Globalization and financial markets-I Geographic concentration

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.

April 24 Globalization and financial markets II- How do global financial markets work: two views of the foreign exchange market

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.

G. Clark and N. Thrift. 2012. "The return of bureaucracy: managing dispersed knowledge in global finance." PP. 229-250 in K. Knorr-Cetina and A. Preda (ed.) The Sociology of Finance. New York: Oxford.

April 29: Is global governance desirable? Possible?

D. Rodrik. 2011. Pp. 206-250 in The Globalization Paradox, New York; Norton.

May 1 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 are 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

Feb. 13 One paragraph describing your project due in Section on Thursday
March 27 1-2 page outline of your paper due in Section on Thursday
March 20 5-7 page double spaced paper due in Section on Thursday

Second paper

April 3 One paragraph describing your project due in Section on Thursday
April 17 1-2 page outline of your paper due in Section on Thursday
May 1 5-7 page double spaced paper due in Section on Thursday

First paper

The first paper should be drawn from materials in the course up until February 27 (the last lecture before the midterm exam). I expect that students will write one of three kinds of papers.

1. A synthesis. You may decide that in order to understand better how the materials fit together, it might make sense to write a synthetic essay from the readings. Potential ideas for topics:

A. What are the empirical critiques of neoclassical economics? Why does it matter that neoclassical models do not account for real markets? What does this mean about the potential success or failure of social and political policies based on trying to implement reforms based on creating a neoclassical market?

B. 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?

C. 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)?

2. You might choose to investigate one of the concepts we discussed in the first part of the class more intensely. This might lead you to do some additional reading in order to understand how scholars use some of these ideas. Some examples:

A. Property rights. Who gets to control profits in capitalism is a big topic. Accounting for the large differences in how property rights are constituted in societies over time and level of development is a research industry.

B. 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?

C. The role of academic ideas like those from economics in the creation of new markets. 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?

3. You might choose to try and use some of the ideas in a class to understand a particular market in which you might have an interest. Some examples.

A. The use of social networks in Facebook implies a kind of performativity. In the case of Facebook, the model is to directly draw upon the social contacts people have to build a market. But what exactly is the market? How can Facebook make money off of people keeping a Facebook page where they communicate with their “friends” for free? What are the problems that the firm has in creating a stable market by which they can make money?

B. Amazon relies on a different kind of performativity. Instead of measuring a given person’s social network, they use information on what basket of goods that people buy in order to suggest things that you might want to buy. The underlying assumption is that you share tastes with an aggregate of people whom you do not even know. What is the sociology of this kind of product market?

C. Recently, the Justice Department would not allow ATT to merge with T-Mobile. Had the merger gone through, the new company would have been the largest mobile phone company in America. Advocates of the merger stressed that customers would have the advantage of a bigger firm and network. Opponents stressed that consumers would have less choice with the two largest firms controlling over 70% of the US market. Use the sociology of markets to argue

whether or not the Justice Department was right.

D. Why is CEO pay so out of control, particularly since the early 1990s? This suggests that something changed in the market for CEOs around that time that gave them more market power. How might that have worked?

Second paper

The second paper will be focused on the current financial crisis in the U.S. and around the world. Let me suggest a number of topics.

1. Describe the financial instruments involved in the financial crisis including mortgages, sub prime mortgages, 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. Is there anything that the regulators could have done to prevent the crisis that eventually happened? If so, what? If not, why not?

4. Why did the U.S. mortgage crisis spread across the developed world? Why has the crisis been so slow to resolve itself?

5. What was the role of banks and consumers in the housing bubble? Do you think that one side or the other are to blame, or both? Should the government have done more to stop the crisis? If so, how were they going to overcome their 50 year support for home ownership in the U.S.?

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 paper 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.