

**Sociology 190**  
**Professor Neil Fligstein**  
**Th 4-6 402 Barrows**

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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. 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. It has also been 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 The recent financial crisis has demonstrated how financial machinations have superseded any other productive activity in the U.S. economy.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 one of the papers and chapters we will read was written before 2000 and that was in 1999 and most of them were written after 2004). I have also 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 unfocused 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 the financial crisis has finally ebbed, what form of economic growth will take the place of the real estate led financial bubble is not yet apparent. The slow recovery of the American economy implies the depth of that crisis and the problems it has left us. Those problems are, as you will hopefully see, structural and will not be easily solved.

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 the changes of the past 40 years and those who want those people to pick up more of the costs of running our society. This conflict has often been obfuscated by arguments that the real issue is the size of the federal debt and the presumed generosity of the welfare state. 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 the well off who have not just benefitted by being the agents of financialization but also the government policies put into place to protect their outsized gains.

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 to 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 end up with 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 slow collapse of Bear Stearns, Countrywide Financial, Fannie Mae, Freddie Mac, and finally, Lehman Brothers precipitated a world wide meltdown in less than a few weeks in the fall of 2008. We will read a paper that provides quantitative evidence to back up that story.

### **Class Assignments**

The Sociology 190 classes are seen as a capstone to your career at Berkeley. We want to give each of you a chance to be in a relatively small class that is focused on an interesting topic where you get to read cutting edge material. Our goal is for you to understand more carefully 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 students to lead one of our ten class discussions. At our first class, I will ask students to sign up for one of the discussions. 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 paragraph 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 of 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 **February 6, February 27, March 20, and April 10. Three of the four reading memos are due before spring break.**

The last three weeks of class will be set up for students to make presentations on their papers. This will count for 10% of your grade.

The most important assignment in the class is the research paper, accounting for 60% 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 February 20. 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 March 13 and will also count for 5% of your grade. I will ask to see a rough draft of your paper in class on April 17. A final version of your paper will be due in my mailbox in Barrows Hall on Monday May 11 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-space. There will be a hard copy reader that can be purchased at University Copy Service, 2425 Channing, 510-549-2335.

## Course Schedule

### **January 23 Introduction**

### **January 30 What is financialization?**

G. 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.

### **February 6 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.

### **February 13 Working for finance: I**

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

### **February 20 Working for finance: II**

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

### **February 27 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." Paper presented at the Annual Meetings of the American Sociological Association, Denver, Co., August 2012.

### **March 6            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.

### **March 13            Financial instruments I: 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.

### **March 20            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.

**March 27            SPRING BREAK**

**April 3            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.

**April 10            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. Forthcoming. "Sucker Punched by the Invisible Hand." Forthcoming, Socio-Economic Review.

**April 17            Paper presentations**

**April 24            Paper presentations**

**May 1                Paper 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 February 20 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.

If you are having difficulty with this assignment, you should come by and sign up for my office hours.

### **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 March 13.

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.

### **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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**Oral Presentation**

There will be 25 students in this class. We will have three weeks of class time, about 330 minutes. This means that each of you will have only 10-12 minutes to present. I ask that you talk for 5-8 minutes and then leave a few minutes for questions and discussion.

A good presentation will have the following structure.

- A. Introduction. In a paragraph or two, you should tell your audience what your question is, what your “hypotheses were, and why your question was interesting. If your research was more exploratory than causal, explain that. Then you should give them some idea as to what answer your research found. The introduction should take 2-3 minutes.
- B. It is useful to briefly tell your audience what you did and how you tried to get at your question. Obviously, you cannot go into very much detail, i.e. 3-5 minutes.
- C. Conclusion and discussion. You should end by returning to the originating question. What are the implications of what you found for thinking about that question? (1-2 minutes).

I suggest that you prepare for your presentation by writing out what you want to say. It is also useful to practice your talk by giving it to yourself, once or twice and timing it.

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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 or three students who will act as facilitators for the discussion. When your turn comes, I ask that you and your partner(s) write out a set of issues you would like to discuss and offer a division of questions for yourselves. You should follow the questions I have set up above to structure your discussion of the texts. If you would like, I would be pleased to try and meet with you to help you construct such questions. This preparation is a bit more intense than just reading the work, but the two activities are pretty related.

**Hint:** If you read as I suggest above and if you have to prepare to lead a group discussion, you will have enough material to do the short reading memos I have asked you to write. You can write one on the readings for the day you are supposed to structure the discussion.