

SOCIOLOGY 351

FINANCIALIZATION AND THE SOCIOLOGY OF FINANCE

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Th: 6:10 – 9:00
Psych 108
Office hours: tba

Course description: Economic and social life now pivot around finance to an astonishing extent, leading one recent observer to suggest that we have experienced a Copernican revolution in which financial markets and logics of portfolio management have displaced corporations, communities, and governments as the center around which everything orbits. This course focuses on institutional, organizational, and social structures of the contemporary financial system. It develops some of the basic tools and approaches for a sociological analysis of finance and financial markets. It traces the evolution of the financial system since the New Deal settlements, including “deregulation,” securitization, and the growing reliance on mathematical modeling. It tracks the changing role and significance of the financial system within capitalist societies, examining the sources and impact of the crisis. And it considers the historical, present, and future role of small, more locally rooted and decentralized alternatives to Wall Street, too-big-to-fail institutions, and money center banking. The core objectives are to provide bases for understandings of the social, political and institutional foundations of financial markets, recent historical transformations in the foundations and organization of financial markets, and the consequences of those changes in and beyond financial systems.

The course pursues this agenda in three parts. Part one sets the stage by engaging varied, but complementary depictions of financialization, arguably one of the most central sociological and institutional tendencies of the contemporary era. Financialization as a simultaneously economic and social process has reconfigured economic and political institutions, the boundaries between financial and non-financial domains, and for some, the basic structure of capitalism itself, bringing with it a host of fundamental transformations, including how corporations organizing themselves, how cities fund schools, and how we see ourselves, others and the value of life itself.

Part II steps back a step to engage sociological analyses of finance and financial markets. Drawing largely on economic sociology, but also on science and technology studies, this work examines the social and institutional structures that make financial markets and give them their particular shapes. Here, we consider both the micro-foundation of credit and financial markets, including the role of trust, social networks, classification, rating and evaluation systems, interaction orders, and calculative devices, and their meso- and macro political and institutional foundations. We also consider types of financial systems and the various forms in which financial transactions and markets appear. Financial markets, we will see, neither emerge spontaneously nor reproduce themselves automatically. Rather they are varied and complex achievements in their own right, requiring substantial social and institutional infrastructures for the operation, and

emerging as products of sometimes deliberate, but also disjoint and inchoate political and economic projects.

Part III builds on these conceptual foundations to return in great depth to the nature, sources and consequences of financialization. We focus first on financialization in the core, tracing the evolution of the (mainly US) financial system from its New Deal settlements, including “deregulation,” globalization, disintermediation, securitization, the reorganization of banks and financial institutions, and the growing reliance on mathematical modeling, derivatives and new models of banking and finance. But a critical dimension of financialization is how finance, financial markets and the metaphors of finance have also profoundly reshaped non financial domains, so we also focus here on its impact and how it has reconstituted the working of the modern corporation, state governments, how we organize and think about our households, ourselves and others, and even life itself.

Course prerequisite: Sociology 211. Additional courses in sociology, economics and political economy in political science, history or anthropology are recommended.

Readings and writing assignments: This is a reading and discussion based course whose success hinges critically on students’ preparation and active participation. The reading is varied, ranging from historical and ethnographic materials to multi-variate statistical analyses, and often difficult, requiring a collective “piecing-together” of the argument, evidence and method within the conference. It is also cumulative in character. Thus, *falling behind in the reading or failing to prepare for conference is not an option*. *Nota bene:* we have only 13 classes in this night course. Each one is precious.

To focus and deepen engagement with the course materials, students will: 1) do regular 1 page or less *definition memos* in order to build basic financial literacy; 2) work in assigned pairs to lead discussions on readings, and 3) conduct a semester long project. That project will involve four 2-8 page *project memos* and brief presentations in which they will analyze a financial institution or organization, element or consequence of financialization, regulation, or aspect or proposal for financial reform. You can chose among a wide variety of topics. You can focus on a particular financial organization – a commercial bank, community bank, credit union, hedge fund—or class of financial organizations and trace how they contributed to, participated in or were affected by financialization. You can consider a particular dimension of regulation or regulatory reform, like Dodd Frank and trace its politics, likely impact or its role in fostering or limiting financialization. You can look at the mechanics of securitization, the nature and effects of the financial crisis or at alternatives or limits to financialization. But whatever you chose must be a specific and concrete phenomena: 1) on which you can collect information and data, 2) about which you can pose and begin to address a sociological question about the social structure, organization and culture of financial markets or financialization, and 3) to which you can apply the materials and tools developed in this course.

The following required books are in bookstore and are on reserve. Additional readings listed below are available through the moodle.

Gerald Davis. 2009. *Managed by the Market: How Finance Reshaped America*. Oxford: Oxford University Press.

Greta Krippner. 2011. *Capitalizing on Crisis: The Political Origins of the Rise of Finance*. Cambridge: Harvard University Press.

Donald MacKenzie. 2008. *An Engine, Not a Camera: How Financial Models Shape*

Gilian Tett. 2009. *Fool's Gold: the Insider Story of JP Morgan*. New York: Free Press

Simon Johnson and James Kwack. 2010. *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown*. New York: Vintage Books.

READING ASSIGNMENTS

INTRODUCTION: PRESENT AS PRELUDE

Week 1: January 30

Financialization as a central tendency in contemporary capitalism

Gerald Davis. Preface and Chapter 1, "The New Finance Capitalism"
Managed by the Markets. Oxford: Oxford University Press.

Greta Krippner. Chapter 1, "What is Financialization?" *Capitalising on Crisis. The Political Origins of the Rise of Finance*. Cambridge: Cambridge University Press.

Natascha van der Zwan. 2013. "Making Sense of Financialization," *Socio-Economic Review* 13: 99-129

Julie Froud, et al. 2002. "Financialization and the Coupon Pool." *Capitalism and Class* 25: 119-51.

PART I: THE SOCIOLOGY OF FINANCE—BASIC IMAGERIES AND CONCEPTS

Week 2: February 6

Foundations and microstructures

Bruce Carruthers and Arthur Stinchcombe. 1999. "The Social Structure of Liquidity: Flexibility, Markets, and States," *Theory and Society* 3 :353-82.

Bruce Carruthers. 2013. "From uncertainty toward risk: the case of credit ratings," *Socio-Economic Review* 11: 525-51

Alya Guseva and Akos Rona-Tas. 2001. "Uncertainty, Risk, and Trust: Russian and American Credit Card Markets Compared," *American Sociological Review* 5: 623-646

Alya Guseva. 2005. "Building new markets: a comparison of the Russian and American credit card markets," *Socio-Economic Review* 3: 437-466.

Saskia Sassen. 2006. "The embeddedness of electronic markets: the case of global capital markets," Pp. 17-37 in Knorr Cetina and Preda, eds. *The Sociology of Financial Markets*. New York: Oxford University Press.

Week 3: February 13

Microstructures and networks

- Brian Uzzi. 1999. "Embeddedness in the making of financial capital: How social relations and networks benefit firms seeking financing." *American Sociological Review*, 64: 481-505.
- Brian Uzzi and Ryon Lancaster. 2003. "Relational Embeddedness and Learning: The Case of Bank Loan Managers and Their Clients," *Management Science* 4: 383-99
- Mark S. Mizruchi, Linda Brewster Stearns and Christopher Marquis. 2006. "The Conditional Nature of Embeddedness: A Study of Borrowing by Large U.S. Firms, 1973- 1994." *American Sociological Review* 2: 310-333
- Karin Knorr Cetina and U Bruegger. 2002. "Global microstructures: the virtual societies of financial markets." *American Journal of Sociology* 107: 905–50
- Karin Knorr Cetina and Alex Preda. 2007. "The Temporalization of Financial Markets: From Network to Flow," *Theory Culture Society* 24: 116-37 (or the new handbook chapter)

Week 4: February 20

Calculation, cognition and valuation

- Iain Hardie and Donald MacKenzie. 2013. "The Material Sociology of Arbitrage." Pp. 186-202 in Knorr Cetina and Preda, eds. *The Oxford Handbook of the Sociology of Finance*. Oxford: Oxford University Press.
- Donald MacKenzie. 2011. "The Credit Crisis as a Problem in the Sociology of Knowledge." *American Journal of Sociology* 6: 1778-1841
- Daniel Beunza and David Stark 2012. "From dissonance to resonance: cognitive interdependence in quantitative finance." *Economy and Society* 1-35.
- Daniel Beunza and David Stark. 2004. "Tools of the trade: The socio-technology of arbitrage in a Wall Street trading room." *Industrial and Corporate Change* 2: 369-400.
- Caitlin Zaloom. 2012. "Traders and Market Morality." Pp. 169-186 in Knorr Cetina and Preda, eds. *The Oxford Handbook of the Sociology of Finance*. New York: Oxford University Press

Alex Preda. 2009. "Brief encounters: Calculation and the interaction order of anonymous electronic markets." *Accounting, Organizations and Society* 5: 675-93

Week 5: February 27

Politics and institutions I

Bruce Carruthers. 1996. *City of Capital: Politics and Markets in the English Financial Revolution*. Princeton: Princeton University Press. Chapters 1, 3, 5-8.

Leonard Seabrooke. 2006. *The Social Sources of Financial Power*. Cornell: Cornell University Press. Preface, chapter 1

First project memo due February 25

Week 6: March 6

Politics and institutions II

John Zysman. 1983. "Finance and the Politics of Industry," "Generalizing the Argument: Japan, West Germany and the United States," and "Finance, Adjustment and Political Crisis: Concluding Remarks," from *Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change*. Ithaca: Cornell University Press.

Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny. 2000. "Investor protection and corporate governance" *Journal of Financial Economics* 58: 3- 27

Week 7: March 13

Politics and institutions II: performativity

Donald MacKenzie. 2008. *An Engine, Not a Camera: How Financial Models Shape Markets*. Cambridge: MIT Press

Second project memo due March 14

Spring Break

PART II
FINANCIALIZATION: SOURCES, TRAJECTORIES, CONSEQUENCES

Week 8: March 27

Financialization and the financial system I: “deregulation” and globalization

Greta Krippner. 2011. *Capitalizing on Crisis. The Political Origins of the Rise of Finance*. Chapter 1, 3, 4.

Bai Gao. 2012. “The International Monetary Regime and Domestic Political Economy: The Origin of the Global Financial Crisis.” Pp. 317-338 in Knorr Cetina and Preda, eds. *The Oxford Handbook of the Sociology of Finance*. Oxford: Oxford University Press

John Campbell. 2010. “Neoliberalism in crisis: regulatory roots of the U.S. financial meltdown.” In *Markets on Trial: The Economic Sociology of the Financial Crisis. Research on the Sociology of Organization 30B*: 29–70

Week 9: April 3

Financialization and the financial system II: “deregulation” and securitization

Leonard Seabrooke. 2006. *The Social Sources of Financial Power*. Cornell: Cornell University Press. Chapters 5, 7

Gerald Davis. 2009. “From Banks to Markets: How Securitization Ended the “Wonderful Life,” in *Managed by the Markets*. Oxford: Oxford University Press.

Gillian Tett. 2009. *Fool’s Gold*. New York: Simon and Schuster. Chapters 1-6.

Simon Johnson. 2011. *13 Bankers*. New York: Vintage Press. Intro, chapters 1-5.

Week 10: April 10

Financialization and the financial system III: securitization

Neil Fligstein and Adam Goldstein 2010. “The anatomy of the mortgage securitization crisis.” In *Markets on Trial: The Economic Sociology of the Financial Crisis. Research on the Sociology of Organization 30B*: 29–70

Neil Fligstein and Adam Goldstein 2012b. “The Transformation of Mortgage Finance and the Industrial Roots of the Mortgage Meltdown” Unpublished MS.

Neil Fligstein and Adam Goldstein 2012a. "A Long Strange Trip: The State and Mortgage Securitization 1968-2010," Pp. 339-56 in Knorr Cetina and Preda, eds. *The Oxford Handbook of the Sociology of Finance*. Oxford: Oxford University Press

Michael Power. 2006. "Enterprise risk management and the organization of uncertainty in financial institutions." Pp. 250-68 in Knorr Cetina and Preda, eds. *The Sociology of Financial Markets*. Oxford: Oxford Press.

Martha Poon. 2012. "Rating Agencies." Pp. 172-92 in Knorr Cetina and Preda, eds. *The Oxford Handbook of the Sociology of Finance*. Oxford: Oxford University Press.

Week 11: April 17

Financialization and the financial system IV: securitization, derivatives, crisis

Gillian Tett. 2009. *Fool's Gold*. New York: Simon and Schuster.
Review 1-6, read 7-15.

Simon Johnson and James Kwack. 2011. *13 Bankers*. New York: Vintage Press.
Chapter 6

Week 12: April 24

Financialization, shareholder value and the corporation

Gerald Davis. 2009. "Financial Markets and Corporate Governance" and "From Institution to Nexus: How the Corporation Got, then Lost, its Soul"
Managed by the Markets. Oxford: Oxford University Press.

Dick Zorn, et al. 2006. "Managing investors: how financial markets re-shaped firms." Pp. 269-89 in K Knorr Cetina and A. Preda, eds. *The Sociology of Financial Markets*, New York: Oxford University Press.

Leon Wansleben. 2012. "Financial Analysts." Pp. 250-71 in Knorr Cetina and Preda, eds. *The Oxford Handbook of the Sociology of Finance*. Oxford: Oxford University Press

Ken-Hou Lin and Donald Tomaskovic-Devey. 2013. "Financialization and U.S. Income Inequality, 1970–2008." *American Journal of Sociology*, 5:1284-1329.

Third project memo due April 25, at 5pm

Week 13: May 1

Responses to crisis: where do we go from here?

Anat Admati and Martin Hellwig. 2013. *The Bankers New Clothes*. Princeton: Princeton University Press. Preface, Introduction, chapters 5-6, 13.

Weil, Gotshal & Manges, LLP. 2012. *Financial Regulatory Reform: The Dodd-Frank Act-Two Years Later*

Simon Johnson and James Kwack. 2011. *13 Bankers*. New York: Vintage Press. Chapter 7, Epilog.

Marc Schneiberg 2013. "Organizational Diversity and Regulatory Strategy in Financial Markets: Possibilities for Upgrading and Reform." *North Carolina Banking Institute Journal*, 18: 141-65.

Final project memo due Thursday, May 8 at 5pm.