MARKETS ON TRIAL:
TOWARDS A POLICY-ORIENTED ECONOMIC SOCIOLOGY*

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Introduction to Markets on Trial: The Economic Sociology of the U.S. Financial Crisis
(Edited by Michael Lounsbury & Paul M. Hirsch)

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Market failures often have devastating societal effects, and the more dramatic and widespread they are, the more ideologies and policies underlying them require critical scrutiny (Polanyi, 1944). Similar to the 1929 stock market crash and Great Depression, events in the early 21st century have created heightened uncertainty and ambiguity, as well as efforts to re-evaluate received wisdom. Over the past three decades, neo-classical models of the Chicago and Austrian Schools of free market economics infused and guided U.S. government policy and enforcement, leading to severe cut backs in regulation of the banking and investment industries. While these ideas and practices also spread around the world, the U.S. provided the beacon. Wall Street became the wild west with repeated market bubbles and collapses, culminating in the so-called Great Recession, ushered in by the subprime meltdown in 2008 and concomitant global financial collapse. During the aftermath of the most recent debacle, Federal Reserve Chairman Alan Greenspan admitted, “Those of us who have looked to the self-interest of lending institutions to protect shareholders’ equity, myself included, are in a state of shocked disbelief” (New York Times, October 24, 2008). After the housing bubble burst in 2008, Greenspan acknowledged a “flaw in the model that I perceived is the critical functioning structure that defines how the world works” (PBS News Hour, October 23, 2008).

Such remarkable confessions should give pause to those continuing to promulgate the neoliberal agenda. For social scientists, the Great Recession has invited and opened up the possibility for a wider array of conceptualizations and approaches to financial markets. And given that free market approaches rooted in neoclassical microeconomics have garnered increased scrutiny in recent years, the current global calamity provides even greater impetus for the flowering of alternative perspectives on the economy from both within and outside of the economics discipline. The development of paradigmatic variants from within economics have included the expansion of institutional economics (North, 1990; Williamson, 2000), the embrace of richer approaches to the psychology of individuals via behavioral economics (e.g., Akerlof & Shiller, 2009), as well as the revitalization of macroeconomics which includes a revival of (albeit modified) Keynesianism (e.g., Hayes, 2008). In contradistinction to these heretical movements from within, this volume focuses attention on the contributions of a powerful, ascendant
paradigm that has emerged outside of the economics discipline—economic sociology. Our aims are to demonstrate the fruitfulness of economic sociology as a lens to explore the financial crisis and address key architectural and policy issues regarding the financial system, as well as advocate for the development of a more policy-oriented economic sociology.

Economic sociology is an international field that is diverse and rapidly growing. It differs from free-market and other variants of economic theory in several fundamental ways (e.g., Block, 1990). A key difference is that most economic models rely on an assumption of human rationality that is very narrowly conceived. Economic sociologists challenge this by highlighting how rationality is socially constructed and culturally contingent (e.g., Fligstein, 1990; Dobbin, 1994; Hamilton & Biggart, 1988). In addition, instead of employing a taken-for-granted understanding of markets as sites for calculating economic actors, economic sociologists have questioned universalistic notions of markets and their inherent efficiency, taking a more critical and empirically grounded approach to assessing their broader architecture and dynamics (see especially Fligstein, 2001).

Economic sociologists point to the importance of taking better account of such critical factors as power, national context, the state, regulators, culture, and social networks. Economists tend to ignore how economic action is fundamentally interpenetrated with such wider concerns (Swedberg, 1994; Granovetter, 1985). While the intellectual roots of economic sociology are found in the classical writings of scholars such as Max Weber, Karl Marx and Emile Durkheim (e.g., see Granovetter & Swedberg, 1992), the development of economic sociology as a formal subfield in sociology is relatively recent. Sociologist Amitai Etzioni contributed by founding the Society for the Advancement of Socio-Economics (SASE) in 1989. SASE is an international organization that through its annual meetings and journal, *Socio-Economic Review*, supports interdisciplinary approaches to the analysis of the economy. A host of economic sociology textbooks and volumes have been published over the past two decades (e.g., Carruthers & Babb, 1999; Dobbin, 2004; Granovetter & Swedberg, 1992; Guillén et. al., 2002; Swedberg, 1990) as well as two editions of a *Handbook of Economic Sociology* (Smelser & Swedberg, 1994, 2005). In 2001, U.S. based economic sociologists created a formal section in the American Sociological Association.

As contemporary economic sociology has developed over the past four decades, increasing attention has been directed towards understanding financial markets and their role in
the wider economy. However, the tremendous body of work that has accumulated has dedicated little attention to economic and financial policy concerns (but see e.g., Block, 1990; Dobbin, 1993; Krippner, 2007), hindering the impact of this intellectual movement. Even though scholarship in the discipline of sociology, including some work in economic sociology, has contributed a great deal to our understanding and the development of social policy more generally (e.g., Coleman et. al., 1966; Jencks, 1992; Dobbin, 2009), this volume represents the first systematic effort to cultivate a more sociologically informed approach to financial market and economic policy. Fortunately, economic sociology has a rich base of empirical findings and conceptual developments that give it a distinctive edge, and should be useful in guiding the development of unique policy insights and recommendations.

In an important early study, Baker (1984) showed how network relationships among traders on the floor of a stock option exchange shaped the direction and magnitude of option price volatility, contradicting ideal-typical economic models of market behavior based on hyper-rationality. Abolafia (1996) extended these basic insights in the context of the New York Stock Exchange, highlighting how the behavior of traders was shaped by social, cultural and political dynamics (see also Abolafia & Kilduff, 1988). A key insight in this work is that the pursuit of narrow self-interest, a key assumption behind economic models of markets, is culturally conditioned and variably expressed even in financial market trading where we would be most likely to find the idealized neoclassical economic approach to markets to have descriptive validity.

These foundational economic sociology insights have been reinforced by comparative work that highlights considerable cross-national variation in economic behavior (e.g., Biggart and Guillén 1999; Dobbin, 1993, 1994; Hamilton & Biggart, 1988; Hollingsworth & Boyer, 1997) as well as economic and managerial ideas (Fourcade, 2009; Guillén, 1994). However, given their seductive simplicity and prevailing use in policy circles, the allure of American-based economic ideas, and power of their promulgators in the U.S. and major international institutions such as the International Monetary Fund, has threatened to reduce such variation around the world (Babb, 2001; Campbell & Pederson, 2001; Fourcade-Gourinchas & Babb, 2002; Prasad, 2006). This was vividly exhibited in the great neoliberal market experimentations in Russia, Eastern Europe and elsewhere after the fall of the Berlin Wall in 1989 (e.g., Sachs, 1992, 1993). To wit, economic sociologists have shown how the reformulation of financial and corporate
practices to fit fashionable Chicago school free market economic ideas in the latter part of the 20th century was not limited to U.S.—core economic and financial institutions such as central banks (Polillo & Guillén, 2005) and stock exchanges (Weber, Davis & Lounsbury, 2009) spread dramatically across nations-states, and new global configurations of financial markets emerged (e.g., Knorr Cetina & Bruegger, 2002). While these trends have not been without their detractors (e.g. World Trade Organization and International Monetary Fund protests), more scholarly attention to the role of contentious politics in and around market institutions is required (King & Pearce, 2010).

The widespread cultural diffusion and broad application of American financial economic ideas and tools has been referred to as “financialization” (e.g., Krippner, 2005, 2010). Financialization is considered “a pattern of accumulation in which profit-making occurs increasingly through financial channels rather than through trade and commodity production” (Krippner, 2005). Many economic sociologists argue that trends related to financialization were crucial to the over-leveraging that underpinned the recent bubble and collapse. Going even further, in Managed by Markets: How Finance Re-shaped America, Davis (2009) catalogs how the historical development of financial markets has also profoundly reshaped American society. He argues that the emergence of the financialization era entailed many changes including a shift from a Puritan ethic of frugality to an investment-based logic that has affected all aspects of social life from how we think about home ownership to how we value social relations. Since policies and practices rooted in neoclassical economic models of the economy have been shown to have considerable potency in subversively (as well as overtly) reconfiguring how we think and act (e.g., Beunza & Stark, 2004; Ferraro et. al., 2005; Knorr Cetina & Preda, 2004; MacKenzie, 2008; MacKenzie & Millo, 2003; Preda & Knorr Cetina, forthcoming; Whitley, 1986), one of the key promises of economic sociology lies in its ability to offer a useful broadening of our intellectual imagination and reflexive capacity to more critically assesses the role of ideas in constituting the economy, as well as to contribute to richer policy debate and more informed policy design.

In addition to tracking broad ideational developments and trends in practice, economic sociologists have also cultivated a rich body of scholarship on specific segments of the field of finance. Building on fundamental insights of Harrison White (e.g., 1981; 2002), many studies have highlighted how social networks shape the behavior of key financial actors. Podolny
(1993) highlighted how status structures shape the behavior of investment banks. Others have examined how concrete relational networks have shaped the investments of venture capital firms (Sorenson & Stuart, 2001) and firm financing (Uzzi, 1999).

Many scholars have also emphasized the role of cultural and institutional processes. Zelizer (1979) showed how the development of life insurance relied on a shift in societal-level cultural beliefs that legitimized the valuation of human life. In subsequent work, Zelizer (e.g., 1995) highlighted how the meaning of money is socially and culturally conditioned (see also Carruthers & Babb, 1996; and Carruthers, 2005 for a review of the sociology of money and credit). Zuckerman (1999) has demonstrated how the categorization of a firm’s portfolio of businesses influences how securities analysts rate corporate securities. Lounsbury (e.g., 2002, 2007) showed how the rise of market logics reshaped activity in the field of finance and the mutual fund industry as conservative approaches to wealth management (e.g., trusteeship) were eschewed in favor of professional experts such as money managers that became valorized as highly skilled actors who could effectively manage risk and “beat the market”. Marquis and colleagues have looked at how institutional logics and public policy have contingent effects on the growth and structure of commercial banking (e.g., Marquis & Lounsbury, 2007; Marquis & Huang, 2009). Schneiberg and colleagues (e.g., Schneiberg & Bartley, 2001; Schneiberg, King & Smith, 2008) have highlighted how the structure and regulation of the American insurance industry is bound up in broader cultural-political processes.

A great deal of attention has also been paid to the relationship between finance and corporate governance. For example, building upon 20th century Marxist financial capital theory, bank control theorists posited that banks and insurance companies were able to influence corporate strategy in a way that served their own interests (Glasberg and Schwartz, 1983; but see Davis & Mizruchi, 1999 on the decline of direct bank influence on corporate boards). In the 1980s and into the 1990s, this conversation facilitated the creation of a cottage industry in studying director interlocks between financial and non-financial organizations and an assessment of how corporations are controlled (e.g., Fligstein & Brantley, 1992; Mintz and Schwartz 1985; Mizruchi, 1982; Mizruchi & Stearns 1994; Palmer, 1983; for reviews see Mizruchi, 1996 and Stearns & Mizruchi, 2005). There also emerged a stream of corporate governance focused research that examined the role of institutional investors (e.g., Davis & Thompson, 1994; Useem, 1996) and tracked the rise of hostile takeovers (e.g., Hirsch, 1986; Davis, 1991),

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deconglomeration (Davis, Diekmann & Tinsley, 1994) and merger waves (e.g., Davis & Stout, 1992; Palmer et. al., 1995; Palmer & Barber, 2001). And in a seminal book, Fligstein (1990) tracked how the financial thinking increasingly reshaped the corporation in the second half of the 20th century as firms hired CEOs with financial backgrounds (as opposed to operations or marketing) and began managing business units as elements of a financial portfolio (see also Perrow, 2002 and Roy, 1997 for important historical treatments).

While this brief overview of economic sociology approaches to financial markets only scratches the surface of the body of knowledge that has accumulated, it highlights the considerable depth of insight that careful empirical research on the interpenetrated dynamics of society and economy can reveal. And given the remarkable failure of the economics profession to predict and forestall the recent global financial crisis, the inspiration for the development of this volume was to gather some of the top scholars in economic sociology to provide an alternative collective voice through analyses of various aspects of the crisis and the development of policy recommendations based on their analyses. As a whole, the contributions to this volume contemplate and make initial efforts to detail the implications of cultural and relational approaches to markets in economic sociology for financial policy and reform.

The contributors to this volume propose and agree on a number of interesting policy recommendations, some of which have been addressed by Congress since the mortgage meltdown and economic collapse of 2008. The major conceptual emphasis that runs through the many of the contributions to this volume is that the design of financial policy needs to be informed by an approach that understands and analyzes financial products, organizations, regulators, and infrastructure organizations (e.g., ratings agencies), and other experts as elements of an interconnected system. In addition, such a systemic approach to policy must appreciate the rich cultural and relational embeddedness of actors and practices, as well as how the stratified nature of different systems create power relations that may threaten the integrity of policy, the independence of regulators, and the utility of different forms of expertise and kinds of experts (see also Zald & Lounsbury, forthcoming). To wit, many articles in the volume demonstrate the crucial role played by regulators and other government officials in creating and supporting market practices and orientations that ultimately went awry; the implication is that any policy approach that takes the separation of markets and the state as its starting point is doomed to failure. While we do not detail all the policy implications discussed in the volume here, our
contributors as a whole make many specific policy recommendations to address issues related to lending practices, the transparency and accountability of ratings agencies, the capital ratios of banks, the role of the Federal Reserve, derivative products, and the creation of an independent system regulator.

Below, we catalogue contributions to the volume. They each shed light on some aspect of the current financial crisis, but also pave a theoretically-oriented research agenda for economic sociology that highlights the fruitfulness of addressing questions that have important policy implications. Given that the aftermath of the initial financial crisis shock will continue to roll on, our volume only addresses one small part of what will unfortunately be a great and long drama. Nonetheless, we believe that this volume demonstrates the power of economic sociology as a unique lens to address core capitalistic institutions and processes—especially those related to the financial system. In addition, it provides a foundation for future work that can shed light on the interpenetration of society and economy, and how social concerns are fundamentally intertwined with economic and financial practices.

Overview of Scholarly Terrain and Arguments

Our volume is comprised a six sections: (1) the crisis; (2) its similarities to, and differences from being a “normal accident;” (3) sociological and historical explanations for the meltdown; (4) analyses of comparable speculative bubbles and business cycles; (5) international parallels and consequences; (6) analysis of how we might approach the future development of society and economy; and (7) postscripts for looking ahead to future policy and prevention. Each contribution addresses its main topic, and concludes with practical policy recommendations for a better future.

Chapters in the first section offer perspectives on the financial crisis and its unfolding, tracking problems related to mortgage securitization, especially subprime lending and failures of ratings agencies. The first article by Fligstein and Goldstein, The Anatomy of the Mortgage Securitization Crisis builds on Fligstein’s (2001) architecture of markets perspective to show how narrow economic rationality did not guide the behavior of mortgage backed securities (MBS) actors; instead, to understand the dramatic rise and fall of the MBS market, they demonstrate the importance of situating it amidst the broader field of relationships between
regulators, mortgage originators, mortgage packagers (both commercial and investment banks), ratings agencies, and the holders of such bonds. They show that from 1993 until 2003, a rapid expansion in the residential real estate and MBS markets led mega banks to enter the market, and ultimately turn to riskier subprime mortgages when the supply of prime and conventional mortgages dried up. Fligstein and Goldstein highlight the key role government played in creating the MBS market and, for a time, coaxing the banks into the MBS business. Suggesting a form of regulatory capture, they argue that Democratic and Republican presidents and Congresses enacted financial reforms that expanded the MBS market and allowed the largest banks to operate virtually without any controls. In short, regulators actively relinquished their duties.

In developing their sociological account of the crisis, Fligstein and Goldstein dispel several claims that underpin conventional economic accounts of the crisis. They challenge the notion that MBS products such as Collateralized Debt Obligations were more opaque and difficult to understand relative to other complex securities. They also highlight how the MBS market was not as fragmented as typically thought, but that five firms controlled at least 40% of the overall market. Overall, Fligstein and Goldstein provide a compelling account of the crisis, offer useful policy recommendations, and forcefully argue for the utility of a sociologically-informed field analysis of markets.

That trouble was brewing was apparent by Spring 2008, when Bear Stearns failed, but the panic stage of the crisis was not reached until Lehman Brothers’ failure in the fall of 2008. Swedberg’s article, on The Structure of Confidence and the Collapse of Lehman Brothers, vividly traces and explains these developments. Drawing on Walter Bagehot’s classic, Lombard Street (1873), he proposes financial panics are typically catalyzed by hidden losses and declines in the confidence of markets. A focus on such mechanisms provides useful leverage for understanding the ultimate bankruptcy of Lehman and the global financial panic which followed in late 2008 and early 2009. Noting that scant attention has been paid to the role of confidence in financial markets, Swedberg argues for a sociological conceptualization of confidence as a belief that action can be based on proxy signs, rather than on direct information about the economic situation itself. He argues that such a sociological approach to confidence is needed to counter more impoverished psychologically-focused efforts by behavioral economists that emphasize “irrationality” as a mechanism and suggest that confidence belongs to our “animal spirits” (e.g.,
Akerlof and Shiller, 2009). Swedberg aptly notes how “references to human nature fall pretty flat when confronted with the task of analyzing sophisticated social institutions of the type that make up the modern financial system.”

The articles by Rona-Tas and Hiss, and Carruthers probe the role of ratings agencies in the crisis. In *The Role of Ratings in the Subprime Mortgage Crisis: The Art of Corporate and the Science of Consumer Credit Rating*, **Rona-Tas and Hiss** provocatively compare consumer and corporate ratings agencies, and highlight how faulty decision-making approaches by ratings agencies hindered effective judgment about the quality of securities and contributed to the crisis. For instance, they highlight how the formalization of consumer credit scoring contributed to the meltdown as the past provided an increasingly worse predictor of the future for estimating the likelihood of defaults. In addition, they identify many problems related to issues such as performativity, endogeneity, reactivity and conflict of interest, and suggest that the ratings of corporate securities might be best provided by a public institution whose business model does not rely on the resources of individual issuers. It is important to note that their article engages with an important literature in the social studies of finance (e.g., Beunza & Stark, 2004; Knorr Cetina & Preda, 2004; MacKenzie, 2008; MacKenzie & Millo, 2003; Preda & Knorr Cetina, forthcoming) that extends the science and technology studies tradition into the world of finance. Rona-Tas and Hiss highlight the fruitfulness of further engagement between economic sociologists and this more ethnographic tradition.

**Carruthers’ Knowledge and Liquidity: Institutional and Cognitive Foundations of the SubPrime Crisis** expands on this theme by focusing on how credit rating agencies stimulated the bubble by continuing to provide favorable ratings for mortgage backed securities that warranted much greater scrutiny. The information (i.e. ratings) they provided underpins liquidity in financial markets. When the ratings were revealed to be misleading, liquidity dried up—investors stopped investing and banks ceased lending (see Carruthers & Stinchcombe, 1999 on the social structure of liquidity). Carruthers suggests that the recommendations provided by ratings agencies were influenced not only by their analysis, but also by the financial community in which they were embedded. He notes that the financial community is “a distinctive audience that is tightly-integrated, self-aware, and prone to various kinds of herding and emulative behavior”, and that it was the interaction between this audience and ratings agencies that produced knowledge that helped create the bubble.
Pozner, Stimmer and Hirsch conclude the first section with Terminal Isomorphism and the Self-Destructive Potential of Success: Lessons from Sub-Prime Mortgage Origination and Securitization. This provocative chapter focuses on cognitive processes and micro-mechanisms which underlay the dysfunctional decision making at financial firms that nearly destroyed the financial markets. Their paper documents how practices that appeared rational at the organizational level (i.e., subprime lending), could fuel the crisis and collective irrationality which occurred at the system level. They highlight possibilities for future inquiry at the interface of organizational institutionalism and more micro and meso theories of organization learning and cognition.

Chapters in the second section build on and develop Perrow’s normal accident perspective (see Perrow, 1984), investigating its utility in conceptualizing the global financial crisis. They also raise and assess the issue of agency – could the severity of the meltdown have been reduced, and when was it seen to be coming? Palmer and Maher’s A Normal Accident Analysis of the Mortgage Meltdown lays out Perrow’s theory of normal accidents and applies it to the mortgage meltdown. To qualify as a “normal accident,” the conditions of high complexity, tight coupling, and interdependence must be present. They show how the financial sector met these conditions. In their view, once these conditions were in place, the meltdown would have been hard to prevent and became an accident waiting to happen. Palmer and Maher also raise and review the question of wrongdoing. They note “normal accident” theory has generally assumed good faith on the part of the actors involved, and raise the issue of how much that was missing in the case of the meltdown. While the papers in this section all address and debate these agentic questions, their authors agree that for policies to avert such disasters in the future, the financial system must be made less complex, less tightly coupled and become more decentralized.

In The Global Crisis of 2007-2009: Markets, Politics, and Organizations, Guillén and Suárez emphasize the organizational and agentic precursors which led up to and enabled the normal accident in which financial systems collapsed, in not only the United States but worldwide. They show how the scaffolding, of greater complexity and tighter coupling, was largely built through forceful lobbying by the same organizations and industries that were among those most impacted by the consequences of the deregulation they pushed for. The lack of oversight and transparency they helped create enabled the international sale of “toxic” financial
instruments and credit swaps to banks and governments in Iceland, Ireland, Greece, and other nations. Guillen and Suarez counsel looser coupling among financial players in the U.S., and reforms in other nations in keeping with their political and economic circumstances.

Schneiberg and Bartley’s “Regulating and Redesigning Finance: Market Architectures, Normal Accidents and Dilemmas of Regulatory Reform” expands on policy options available to deter financial meltdowns, focusing on two types of economic reform. The first takes financial architectures as given and suggests a range of reforms for trying to regulate complex and tightly coupled systems that are prone to normal accidents. These include order of magnitude increases in the administrative capacities of rating agencies, and developing regulation as learning systems to deal with the uncertainties produced by interconnectedness, innovation and a steady stream of financial innovation. The second set of reforms suggests using regulation to redesign existing market architectures, reducing complexity and loosening coupling, by decentralizing the financial services industry and creating redundancies. For example, they suggest curtailing the influence of investment banks over the ratings agencies that assess the quality of investment products and provide bond ratings, and by promoting more alternative, locally based community banks and credit unions. Schneiberg and Bartley also highlight many provocative avenues for research, and compellingly argue for the importance of directing scholarly attention to the dynamics of market regulation in a more sustained and systematic way. In a pre-publication review, Goldstein (2010: 4) refers to this article as “perhaps the most trenchant and bold” in the volume for its emphasis on how the architecture of financial markets is fundamentally imprinted and shaped by regulatory institutions.

In “The Meltdown Was Not An Accident,” Charles Perrow considers analyses of the Great Recession and explains where he sees them conforming to his model of the normal accident, to the cultural emphasis of new institutional theory, and to the roles played by agency and what he calls “executive failure.” While elements of the normal accident framework are indeed present here, Perrow notes that it also portrays those engaged in it as working hard to prevent their systems’ from unfolding. But in this case, he notes many involved did quite the opposite: Here, “they were well warned and knowingly did damage to their organizations and their clients, as well as to the society as a whole.” While Perrow makes clear that the mortgage meltdown meets the tightly coupled, interdependent and highly complex criteria for a normal
accident, he urges its analysts to not stop there, but attend more to the contribution of the agents involved and their “executive failure.”

The third section provides a set of provocative sociological and historical analyses of the crisis. Why did it occur and how might it have been prevented? How many saw it coming? Economic perspectives that argued for stronger incentives to generate greater risk-taking, and increased profits and higher stock prices, are seen by the authors in this section to have produced results that counter what they had envisioned. Instead, the radical shift from managerialism to financialization, advocated by agency theory and neoliberalism, are found to have set the stage for the crisis which followed.

In their critique, The Misapplication of Mr. Michael Jensen: How Agency Theory Brought Down the Economy and Why it Might Again, Dobbin and Jung trace how the shift to executive compensation based on the provision of stock options, with bonuses tied to a rise in share price, resulted in: a greater focus on short-term gains; greater reliance on debt financing; and a reconstitution of boards that engaged in less oversight. Agency theory’s dismissal of stakeholder rights in favor of (only) shareholders’ reduced corporations’ concerns for their employees and communities. Finally, the movement to de-diversify, while producing huge returns for investment banks, made companies more vulnerable to business cycles by directed their focus to a single “core competence” removed the hedges against bad times provided by a presence in more than one line of business.

Campbell’s article, on Neoliberalism in Crisis: Regulatory Roots of the U.S. Financial Meltdown, critiques the economic and political tenets of neoliberalism which advocates smaller government and less regulation of the financial sector. He traces how the “hands off” policies neoliberalism advocates contributed to the subprime mortgage crisis. Campbell notes that markets are licensed by the State, which sets the rules and parameters in which they operate. Following neoliberal logic, these rules and parameters were relaxed by the State, while the licenses remained unchallenged. When the financial sector’s unregulated run-up of risk got out hand, there was no objection from deregulation’s neoliberal advocates regarding the government’s enormous bailout of these organizations (see also Guthrie & Slocum, in this volume). Like Dobbin and Jung, Campbell warns that unless there is a change in the current policy—of banks keeping gains while the State underwrites their losses—there is nothing to
discourage more unregulated risk taking, with few adverse consequences for those taking them when they fail.

In The American Corporate Elite and the Historical Roots of the Financial Crisis of 2008, Mizruchi takes note of an interesting change in the composition and actions of America’s business elite—from a relatively cohesive and pragmatic “inner circle,” to what became a more fragmented collection of CEO’s. Whereas the earlier elite was conservative, it took part in a business-government partnership which included the formation of broad social policy. In contrast, their counterparts today are more likely to avoid such engagement, instead sending lobbyists to represent them on a much narrower set of issues that may affect their firms’ interests. The change Mizruchi notes is consistent with the broader shift in our cultural thought and social policy, towards what Krippner (2005, this volume) calls “financialization,” and Davis (2009, this volume) sees as the new mindset of the “ownership society.”

Krippner’s The Political Economy of Financial Exuberance sheds impressive light on the political costs and benefits of inflation. Much as a rising tide raises all ships, Krippner notes rising values for housing and other assets enriched and empowered their owners. While economic inequalities increased and overall affluence fell between 1970 and 2007, the acknowledgement and treatment of these problems was left unattended. It was deterred by inflation, with increasing home prices enabling doubtful collateral to be accepted for billions of dollars in loans issued to build, purchase, or refinance houses. Inflation thus deferred acknowledgement and response to the distributional problems we see now, which Krippner notes represent tradeoffs between scarce resources and social priorities that were masked for over a generation, until this bubble burst.

The fourth section looks specifically at crisis production, examining different approaches to speculative bubbles and business cycles. In Abolafia’s article, The Institutional Embeddedness of Market Failure: Why Speculative Bubbles Still Occur, market crises are conceptualized as driven by problems related to broader trends in and the pathos of academic, political and regulatory institutions. Abolafia argues that while asset bubbles are not always disastrous for society, they can be when they are more tightly connected to the core of the economic system and exacerbate systemic risk. In addition, even though we have the tools at our disposal to prevent the formation of crippling speculative bubbles, such man-made disasters are unlikely to be averted due to our limited understanding of how the economy is institutionally
embedded. Abolafia is particularly critical of ideologies that support the notion that financial markets are self-regulating and require minimal state intervention (i.e. market fundamentalism). Theoretically, he critiques conventional approaches to bubbles that either conceptualize bubbles as triggered by exogenous shocks (Kindleberger and Aliber 2005) or rely on psychological reductionism to explain the behavior of actors such as in a *Minsky moment* (Minsky, 1986, 1993). Instead, Abolafia promotes a social constructionist approach (see also Abolafia, 1996; Abolafia & Kilduff, 1988) that understands behavior in economic life, such as speculation, as enacted in the context of social relationships, cultural idioms, and political and economic institutions.

In *The Social Construction of Causality: The Effects of Institutional Myths on Financial Regulation*, Rubtsova, DeJordy, Glynn and Zald echo Abolafia’s emphasis on the role of broader ideas in constituting markets and market crises. Focusing on the historical development of stock markets in the U.S. up to the collapse of 1929 and ensuing Great Depression, Rubtsova and colleagues highlight how historically situated assumptions, values, and beliefs related to appropriate market practices shape the socially constructed theories of causality for market crises and subsequent regulatory action taken by the government. They demonstrate that the state not only creates markets but also how it is affected by the historical development of markets and their dominant logics as embodied in institutional myths and professional norms. By endogenizing the state, they are able to show how the development, form, and content of governmental regulation is institutionally embedded and shaped (see also Davis, 2009). In agreement with Abolofia's conclusions, the implication of their analysis is that serious market reform must grapple with the reform of a broader array of institutions and beliefs within which markets operate.

Like Abolafia and Rubtsova et. al., *Beamish and Biggart* are critical of standard, equilibrium-oriented economic approaches to understanding crises, and argue that economic sociology can better contribute to understanding such situations by offering a kind of middle range meso-economic approach. In their article, *Business Cycles, Entrepreneurship, and Economic Crisis in the Commercial Building Market: Toward a Mesoconomics*, they focus attention on how *market orders* can become destabilized and break down as a result of both macro-level shifts in business cycles and more micro-level entrepreneurial activity. Drawing on the case of commercial building, a hard-hit industry during the recent financial crisis, they
emphasize the primacy of understanding how markets are embedded in a social and institutional context that constitutes actors and appropriate conduct in markets.

The fifth section offers a couple of papers that aim to situate the U.S. crisis more globally by exploring comparative institutional dynamics. In *Through the Looking Glass: Inefficient Deregulation in the United States and Efficient State-Ownership in China*, Guthrie and Slocum compare developments in the U.S. and China to highlight how recent bailouts of major economic firms is contradictory to deregulation and makes laissez-fair approaches to markets inefficient. They challenge conventional conceptualizations of private and state-owned enterprises, highlighting how private firms like General Motors can be woefully inefficient, while state-owned firms like PetroChina can be extremely efficient. They argue that more a more nuanced understanding of private-public partnerships is required to assess how such mixed structures can enable innovation and economic growth.

The state-market tension is further elaborated by McDermott in his article, *Precedence for the Unprecedented: A Comparative Institutionalist View of the Financial Crisis*. McDermott argues that contrary to conventional wisdom, the modern capitalist economy is not characterized by a “market preserving state” that merely enforces minimalist rules of property rights (Weingast 1995), but rather by an “experimental regulatory state,” where public and private actors construct complex institutions where active engagement, learning and experimentation are central (Bruszt 2002, Sabel, 1994; see also Schneiberg & Bartley, this volume). McDermott argues for developing a comparative institutionalist agenda in order to assess what alternative policy approaches exist and are being pursued, and to facilitate learning across nation-states (see also McDermott, 2007). Such an approach foreshadows the importance of how markets are institutionally configured, highlighting the limits of falling back on overly simplistic market-based policy approaches that valorize narrow technocratic expertise. It is clear that a more systematic comparative agenda is absolutely essential to the development of a more impactful policy-oriented economic sociology (Campbell, 2004; McDermott, 2002; Sabel & Zeitlin, 1997; see also Guillén & Suárez, this volume).

Section six features an article by Gerald F. Davis entitled, *After the ownership society: Another world is possible*. Building on his landmark (2009) book, *Managed by Markets: How Finance Re-shaped America*, Davis catalogs the death of a corporate-centered society, the brief rise and fall of an ownership society, and the prospects for innovation in a post-industrial, post-
corporate society where large corporations employ an increasingly small percentage of employees relative to historical norms (Davis and Cobb, forthcoming). Davis claims that the 2008 financial crisis pounds the nails into the coffin of the George Bush era experimentation with an ownership society model built around financial markets—individual retirement accounts and health savings accounts invested in the stock market, and broadened home ownership enabled by mortgage securitization. The implosion of this financial market approach to society and economy coupled with the reduced role of corporate employment necessitates more intense policy focus on employment. This is echoed by the recent book by Reinhart and Rogoff (2010) where they show that bank-centered crises, including the most recent one, have all led to major unemployment problems, not to mention the bail-out costs and loss of tax revenue. Davis suggests that state and local level policy development will be especially crucial to create a context for organizational innovation in which employment is an explicit goal. In particular, through policy and legislation, local governments can facilitate experimentation in organizational forms that privilege employees over shareholder value, and create a foundation for a more progressive and sustainable society and economy.

The Postscript features an overview and commentaries from two expert contributors to the field of economic sociology, on the issues addressed and essays in Markets on Trial. In “What If We Had Been in Charge? The Sociologist as Builder of Rational Institutions,” Zuckerman focuses on the “realist” versus “constructionist” underpinnings of the policies followed, and actions taken by all the players in the Great Recession (some of whom he suggests may be missed in the preceding essays). He notes the collapse of the housing bubble was both predicted and widely anticipated, and argues that whereas sociologists are right to be skeptical about naïve claims of rational pricing, it must remain a central goal for our regulatory prescriptions. To attain this requires an understanding of the institutional mechanisms that promote or undermine market efficiency. Zuckerman's analysis provides support for some of the regulatory reforms endorsed by many contributors (e.g., greater market transparency).

Block’s concluding postscript, “Markets on Trial: The Economic Sociology of the U.S. Financial Crisis,” sees economics as a discipline having lost touch with its history of working with other social science disciplines to fill out and better test its models. The economic sociology-based essays in Markets on Trial constitute a step towards greater dialogue, in which we invite more colleagues in economics to engage. Block also prescribes more attention to
earlier crashes, noting how the creation of the Federal Reserve and Securities and Exchange Commission were established in response to crises. From a policy standpoint, it appears the Great Recession has not been followed by analogous reforms. Finally, Block rightly points to a next step for economic sociology – devoting more attention to not only what should be stopped, but towards creating better conditions for investment in upgrading neglected infrastructures. Such “prosocial” actions, to generate better living conditions and needed jobs, would enable placing a better verdict on the actions surveyed by the authors in *Markets on Trial*. 
REFERENCES


