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economic sociology_the european electronic newsletter

Provided in Cooperation with:
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Suggested Citation: Heilbron, Johan (2005) : Taking stock: Toward a historical sociology of financial regimes, economic sociology_the european electronic newsletter, ISSN 1871-3351, Max Planck Institute for the Study of Societies (MPIfG), Cologne, Vol. 7, Iss. 1, pp. 3-17

This Version is available at:
https://hdl.handle.net/10419/155855

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Taking stock: toward a historical sociology of financial regimes

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> *Money is the social instrument that gives the most accurate indication, in its uses and its changes over time, of the degree to which functions are divided, of the extent and nature of social interdependence.* – Norbert Elias –

Introduction*

Among the daily torrent of news messages on radio and television two subjects have secured a permanent place: the weather and the stock market reports. The financial indicators are reviewed several times a day. Exchange rates, share price indices, and major price swings are all reported, often followed by brief explanations. A mild decline in share prices is explained in terms of profit-taking, a slight increase reflects a "technical recovery" or "regaining of confidence," and major fluctuations point to investors buying or selling their securities *en masse*. Thirty years ago, such messages were much like the shipping forecast or farming news – they were specialized reports for a limited audience, intruding only occasionally in the public sphere. Today, stock market reports are at the heart of the business news, and have become an indispensable part of daily news broadcasts in the wealthy parts of the world.

The prominent place accorded the stock market is first of all related to a series of changes that took place in the financial world in the last few decades of the twentieth century. The growing interest in shares arose together with a richly varied assortment of financial services and products: new types of loans, numerous investment constructions, and a wide range of derivative products.[1] Many of these are traded on stock exchanges, which have themselves changed dramatically. Options markets are a good example. Although futures trade has existed for hundreds of years, it was most often vividly contested. Regular and legitimate markets for options on shares and interest or exchange rates are a very recent development. The first options exchange opened its doors in Chicago in 1973.[2] Its first European equivalent started business five years later in Amsterdam and was soon handling one million options contracts annually; by the late 1990s, annual turnover in Amsterdam had risen to 60 million contracts. The trade in shares and bonds underwent similar growth: between 1980 and 2000 the turnover at Amsterdam's exchange increased by a factor of 80.[3] Options, shares, and bonds are generally bought and sold by professional brokers employed by financial companies or institutions. But private individuals are increasingly venturing into the field on their own. Attractive returns and a rising tide of offers have turned more and more private citizens into investors. In the 1970s, about 400,000 people invested in stocks and shares in the Netherlands; by 2000, just before the decline of the market, the number had risen to almost two million.[4]

Managing money has become the increasing concern of ever larger groups of people, and today even crops up in reflections on lifestyle and leisure activities. Yet the fascination exerted by fast and smart money is tempered with disbelief and suspicion. The controversies and scandals that hug the headlines with increasing regularity sustain fears of fraud and imminent personal ruin. Financial thrillers, a genre not much more than 20 years old, revolve around swindlers and the swindled in the world of big money, around code accounts, front running, and other monkeyshines to which gullible outsiders can all too easily fall victim.[5]

Financial services, as they are humbly known, were one of the fastest growing sectors of the economy in the last quarter of the twentieth century. Financial transactions became proportionally more significant, as did the extent and social significance of financial institutions and markets.[6] Accounts of these developments generally focus on share prices: the narrative is about peaks and troughs, the overvaluing or undervaluing of certain shares, and the corresponding repertoire of decisions: buying or selling.

It is quite possible, however, to approach the stock exchange from a different angle altogether, one that does

not revolve around share prices but around the social dynamics of the process underlying fluctuations in the market. Share prices result from a large number of actions that cannot be controlled by any of the individuals or groups involved. Every investor makes more or less purposeful decisions, but the combined outcome of these activities is not intended, and cannot be foreseen, by any of them. The movements on the stock exchange do not proceed according to any purpose or plan, they exemplify what Norbert Elias has called a blind process. It could scarcely be otherwise: if prices could be predicted, there would be no trade: instead we would have only buyers, or only sellers.

As the unplanned outcome of many related actions, stock prices are a function of the social configuration embracing all those involved. The trade in stocks takes place in a dynamic constellation of interdependent groups: institutions that issue stocks, investors who buy and sell them, and a mediating group of traders, stockbrokers, analysts and advisors. The structure of this constellation and the way it functions are the product of a historical development that, while to some extent autonomous in relation to other processes, cannot be detached from the wider social context. States in particular are of paramount importance, since they enable peaceful trade, offer legal protection, and are in many ways directly involved in market formation, through taxation and subsidies, and through regulatory and supervisory measures.

From this point of view, two general historical sociological questions can be formulated. The first has to do with long-term trends: how have exchanges and stock markets evolved, what phases can be distinguished, and how can this long-term development be explained? This leads to a second, composite question: has the financial sector indeed entered a new phase in the last few decades of the twentieth century, and if so, which groups played a dominant role in this context, and how can this new phase be interpreted and explained?

Taking a historical look at the stock exchange, we can basically distinguish four successive stages prior to the last decades of the twentieth century. In the first and by far the longest stage, there was no trade in stocks. Tradeable public loans and shares in private companies were unknown in antiquity, and the concept of public debt, as Earl Hamilton noted, is one of the few phenomena that does not have its roots in Greco-Roman antiquity.[7] The second stage, in early modern Europe, witnessed the first issues of long-term tradeable loans or bonds, and tradeable securities and shares. Initially it was states and companies closely linked to states, such as the Dutch East India Company (VOC), that issued stocks. Once this mode of financing became more widespread, the sector entered the third stage, one of professionalization and institutionalization. Professional stockbrokers formed their own organizations in the course of the eighteenth century, and these in turn set up the national stock exchanges, which became the hub of a steadily growing financial sector. From the late nineteenth century onwards – in the fourth stage – the stock market underwent further expansion, now driven specifically by private enterprise. From this time onward, trading on the stock exchange no longer focused on government loans and shares in state-subsidized or state-related companies, but widened to include shares in large private enterprises.

Stock markets as political constructs

Trading on the emerging stock market arose in combination with processes of economic growth and state formation. With the gradual expansion of trade and industry, the money economy expanded in Europe, and larger groups of citizens obtained more financial resources. At the same time, and closely related to the growth of the money economy, states had come into existence, which had a chronic need of extra resources to fund their political and military rivalry.[8] State expenditure was largely military expenditure, and one of the main problems facing European rulers in the sixteenth and seventeenth centuries was the rising cost of warfare. Technological advances had increased the costs of armament, armies became bigger, and wars were frequent and protracted. To pay for all this, taxes were increased, and new levies and excise duties were constantly being introduced.

When war broke out, however, regular sources of revenue never sufficed, and loans had to be procured. Rulers could obtain short-term loans from international bankers, but since these were offered at a high rate of interest, they tried their utmost to replace them with cheaper longer-term loans. City councils had already developed such a solution. Since the late Middle Ages, they had issued loans that entitled the holder to an annuity or *rente* until the loan was paid off or until his decease. When long-term loans of this kind were issued, specified types of tax revenue served as collateral, so that financiers could be confident of getting their money back.

These modes of funding became more widespread from the sixteenth century onward, accounting for a substantial part of the state's revenue. Provincial and central authorities took to issuing long-term loans at the outbreak of war, with future tax revenue being reserved for repayment. The Dutch Republic in particular, followed in the eighteenth century by Britain, used these means to procure large sums of money relatively cheaply.[9] States with less efficient tax systems could borrow less, had to pay higher rates of interest, and resorted more frequently to forced loans.[10] That states with a better financial bill of health had a competitive advantage was unambiguously expressed in the military balance of power. The small Dutch Republic survived the Eighty Years' War against the Spanish empire, while Britain managed time and again to defeat the three times larger France.[11]

As these long-term loans to the government became more entrenched, they also became more easily transferable. Instead of being drawn up in an individual's name, they specified that they belonged to the "holder" or "bearer."[12] This meant that bonds could be transferred and traded. This transferability expanded the system further: the state retained the money borrowed for the full term specified, while the lenders could recover their investment at any time by simply selling the bond. Thus the primary market for the issue of bonds gave rise to a secondary market in which the bonds issued could change hands. The combination of the two was the core of the emerging stock market. Stocks were, in brief, tradeable entitlements to a regular income over a long period of time.[13] Tradeability, or liquidity, reduces the risk for those purchasing bonds without having any adverse effects for the issuer.[14]

With the advent of tradeable bonds, rulers became less dependent on a handful of international financers, and more so on a larger – chiefly urban – wealthy elite. This shift in relations of dependency generally fostered a process of parliamentarization; it also led to a situation in which the public debt was constantly increasing and repayments were scarcely made, since there were few other modes of investment open to the patriciate.[15]

One alternative to purchasing government bonds for wealthy citizens was to use their capital to purchase shares. Merchants formed corporations in which they each took shares as early as the late Middle Ages.[16] But these corporations remained small, they were generally short-lived, and their shares circulated among a small select group. The transition to large-scale, permanent enterprises with tradeable shares came with the formation of trading companies. In exchange for payments to the state, these companies secured a monopoly on trade with overseas territories. Since long-distance trade required more capital, trading companies started issuing shares. The example was provided by the VOC, established in 1602 at the Dutch government's initiative by a merger of several smaller local companies. More than 1,800 people pledged a specified sum, acquiring the right to a share of the profits. They were effectively indemnified against any financial risk greater than their deposit, but aside from a small group of directors they had no say in the VOC's policy. It was soon determined that the capital accrued could not be claimed back; anyone who wanted to be rid of his share would have to sell it.[17] So just as in the case of government bonds, the launch of the new trading companies called into being both an emissions market and a trading market.

Speculation was built into the stock market from the outset. Unlike the fixed interest on bonds, dividends depend on an unknown quantity: profit. The uncertainty surrounding profits increases the risk and creates scope for speculation, which increases the risks still further. Even in the early years of the Dutch stock market some people were already indulging in what was known graphically as *windhandel* – "trading in wind." A group of speculators led by Isaäc Le Maire sold large numbers of VOC share options in 1609, without actually owning the shares. As the time approached when they would have to deliver the shares, they spread rumors of shipwreck and other misfortunes, which sent the share price plummeting. They enhanced the trend by selling small numbers of shares themselves, continuing until the share price had fallen below the level at which they had sold them. A series of prohibitions designed to root out *windhandel*, defined as the sale of shares that one does not possess, had little effect.[18] *Shorting*, as it is called in English, is still widely practiced today.

Joint-stock corporations set up along the lines of the VOC proliferated in several countries in the course of the seventeenth century. They acquired certain privileges from the government, and some took over a share of the public debt in exchange. Holders of government bonds could exchange their bonds for shares in the new companies. That happened on a large scale in Britain and France, until the first international stock market crisis, in 1720, brought it to an abrupt end. The share prices of the new busi-

nesses collapsed as dramatically as they had soared, bankrupting companies and ruining investors. In consequence, the rules for establishing corporate enterprises were tightened up, not to be eased until the nineteenth century.

Institutionalizing exchange

Although initially separate from one another, the trade in bonds and shares eventually became concentrated in commodities exchanges, where merchants traded their merchandise and settled their financial affairs. The stock exchange was a small but steadily expanding section of the commodities exchanges in trading cities such as Amsterdam, Hamburg, London and Paris. As soon as the trade in shares reached a certain level, professional stockbrokers arrived on the scene, who sometimes collaborated and offered services to investors and to each other. In the course of the eighteenth century they formed organizations, which gradually secured a monopoly on the trade in shares. The organizations adopted regulations and rules of commerce, on the basis of which they secured recognition by the government. Stockbrokers breaching these regulations could be excluded from trade.

As a result of this change, the open market that had existed in and around the commodities exchange was transformed into a fairly closed market: trade was concentrated in a separate space or a separate building that was managed by an association of specialized agents: commission merchants, jobbers, and other stockbrokers.[19] The first exchange organized in this way was the one in London, which after the French Revolution became the largest, taking over Amsterdam's international role. The revolutionary and Napoleonic wars had caused traders from many European cities to flee to Britain, where the same wars had boosted trade in government bonds.

Well into the nineteenth century, stock market trading was dominated by long-term loans purchased by local, provincial and central authorities. In 1850, three-quarters of the funds listed on the London stock exchange market were government bonds. The same applied in Paris and Amsterdam.[20] Stock exchanges were as yet of little significance to private companies. Entrepreneurs financed their activities through family networks, borrowing extra money from banks.[21] Only undertakings with a more or less public function had their share prices quoted at the stock exchange: banks entitled to print money, and companies that built bridges, canals and railroad tracks. Of these, railroad companies were the biggest and by far the most numerous.[22]

Railroad companies had high investment costs, which made it necessary to issue stock, but they also received government subsidies. Without government recognition it was scarcely possible for entrepreneurs to gain the confidence of substantial groups of investors. Shares in private companies were seen as very high-risk: the profits to be expected and even the company's survival were uncertain, and the reliability of entrepreneurs too was a matter of doubt. Government support provided a measure of security. Thus, the French government guaranteed a minimum rate of interest on railroad bonds.[23] The shares of the Netherlands Trading Company (est. 1824) could only be placed after the dividends had been guaranteed by King William I.[24] In Britain and the United States, more was left to private initiative, but these countries also had government support for companies with a public or semi-public task.[25]

Besides playing a key role in the market in bonds, governments were also crucial to the formation of markets for shares. State formation and market dynamics were not opposed to each other but intertwined, and the institutional arrangements that arose in this interaction would to a large extent determine the specific structure of national economies.[26]

At the end of the nineteenth century, railroad companies served as a model for the way to organize, manage, and finance large companies.[27] Many of the industrial companies that arose at this time became corporations. In this legal form they no longer needed separate permission from the government or parliament, as legislative restrictions had been eased, and their shareholders profited from the limited liability, which had in the past been the prerogative of the owners of companies enjoying government recognition.

For these new corporations, share issue served a variety of purposes. In line with prevailing views it occasionally served to attract new capital, but that was generally not the main purpose.[28] It was more often a way for the original owner or proprietor to convert his interest in the company into cash. Though this did not provide the company with any financial advantage, it did confer indirect advantages: the sale of shares strengthened the position of the new directors as the shares were disseminated among a larger and more diffuse group of shareholders. This was

one of the main reasons for the separation of control from ownership, in other words of managers from shareholders, that was to become characteristic of major companies in the twentieth century.[29]

Issuing shares also made it possible to pay off bank debts. This was particularly common in Germany, where the big universal banks gave companies long-term credit in return for shares. When it suited the banks, the shares were sold, but since they often held on to them for many years, banks had a key position in companies' supervisory boards.[30] In other cases, shares were used to finance takeovers or mergers. Even then the shares did not appear on the market; they were either transferred to other companies or came into the possession of these companies' owners.

Since issuing shares served a variety of functions, there were substantial differences in property relations. In relations between companies, the dominant position was sometimes held by banks and sometimes by other companies or holding companies belonging to wealthy families. In the first case, financial capitalism was commonly the dominant structure of accumulation (Germany), whereas some form of family capitalism tended to be dominant in the second case (Italy, France).

With the increase in the number of corporations at the end of the nineteenth century, the stock markets too underwent a period of rapid growth. Government loans played a smaller role as more shares were traded, which had an impact on the image of trade in stocks and shares: from then on, it was to a large extent the fortunes of industrial and financial enterprises that determined exchange business. In London, government bonds still accounted for three-quarters of the value of the exchange in 1850; by 1913 they accounted for only one-third.[31]

As big companies acquired more interest in the stock market, and national governments played a greater role, stock exchanges became more integrated into national economies. After the First World War, the number of listed foreign companies and investment in foreign shares declined; the stock market became subject to a more austere national regime.[32] Besides the self-regulation that had been customary throughout the nineteenth century, statutory regulations were enacted, and national supervisory bodies called into existence. The new regime became especially marked after the Crash of 1929. Listed companies had to fulfill stricter requirements, and compliance with these and the new, stricter rules of trade was monitored either by the Ministry of Finance, the Central Bank, or by a separate body such as the US Securities and Exchange Commission, set up in 1934.

National states and financial regimes

Viewed as a long-term trend, the development of stock exchanges was linked in the first place to the growth of trade and industry, which created an upper layer of society with surplus financial resources. The institutions that successfully attracted this capital were emerging national states, and the driving force behind the development of stock exchanges was inter-state competition. By issuing tradeable bonds, some states expanded their resources and became less dependent on international bankers from whom rulers had borrowed in the past. Britain had demonstrated the advantages of this mode of government funding over those used by larger states such as France and Spain in the eighteenth century, and its strategy was soon being emulated, first in the United States, and later on in other European countries too.[33]

The rivalry between European states, which was largely responsible for the genesis and spread of markets in government bonds, was also the driving force behind the formation of markets for shares. For after the trading companies, the joint stock company was an organizational form used primarily for other companies with a public or semi-public task. It was not until the last decades of the nineteenth century, when legislation had been liberalized, that private companies too increasingly acquired corporation status. Self-financing and bank loans remained the primary sources of financing firms, but supplemental to these, issuing shares presented certain strategic advantages. To minimize the potential risks of shares, companies generally took protective action such as issuing preferred shares or shares without voting rights.

The stock market, often considered as the market closest to the ideal type of a perfectly competitive market, is thus a political construct. Its development, furthermore, exhibits the same pattern as other successful innovations.[34] The new modes of financing were slow to catch on at first. But once the competitive edge they provided became clear, they spread rapidly and were eventually considered indispensable. Despite enduring national differences, stock exchanges became an integrated part of the financial regime of all advanced market economies.[35]

Collectivization and shareholder power

The last three decades of the twentieth century constituted in many ways a new stage in this long-term process. Innovations in information and communications technology coincided with the deregulation of capital markets, as a result of which the stock exchange underwent enormous growth.[36] In this rapid and at times turbulent development, professional representatives of shareholders played a key role. Both stock exchanges and listed companies found themselves having to deal with far greater shareholder power than ever before. For instance, large shareholders successfully exerted pressure to abolish fixed brokerage fees. In the United States this happened in 1975, in the UK with the so-called Big Bang of 1986, and the rest of Western Europe soon followed suit. The abolition of fixed commission rates greatly boosted competition among stockbrokers and exchanges and slashed transaction costs. The members of the stock exchange, which had for years been an amenable gentlemen's club, suddenly found itself having to ward off rivals, first domestically and soon at international level.[37] Trading houses merged or were taken over, and in order to attract more capital for international competition, a number of exchanges abandoned the partnership structure and became listed companies themselves.

One of the first signs of the shift in the balance of power was a wave of company takeovers in the United States, starting in the 1970s. After a long period of growth and unthreatened international hegemony, American companies faced increasing competition from Japanese and German companies and saw profit margins shrinking.[38] The oil crises of 1973 and 1979 drove prices up still further, against a background of steeper inflation and rising interest rates. The resulting fall in share prices made it profitable to buy up companies to split them up and sell them. These "hostile takeovers" were conceived by small firms of financial specialists and carried out with borrowed money. They were justified by invoking the view that companies were intended in the first place to generate income for those to whom they belonged – that is, the shareholders. The term "shareholder value" was coined in the early 1980s to express this. According to the underlying doctrine, the management must strive to maximize the shareholders' interest; all other objectives must be subordinate to this, and where management fails in this respect, it is up to shareholders and their agents to take action. This view, which is based on ownership, not entrepreneurship, was backed up with financial and economic theories and struck a sympathetic chord with management consultancies that were involved in the restructuring processes of companies.[39] The emphasis on the discipline imposed by the capital market corresponded to the neoliberal orientation that in policy networks came to supersede the Keynesian principles that had prevailed up to then.[40]

Falling profits and a spate of takeovers forced the management of American companies to undertake reorganizations and to reconsider the strategy of their enterprise. In these circumstances, a relatively new group of shareholders moved into the arena: institutional investors. These institutions – pension funds, life insurance companies, and investment funds – had arisen independently of one another, partly as a result of changes in pensions legislation and partly as a result of changes in saving behavior among the population. These collective funds had increasing resources at their disposal and invested a growing proportion in stock. In 1950, private individuals owned 90 percent of shares in the United States; by 1997 this figure had fallen to 40 percent.[41] The difference is explained by the emergence of institutional investors, who now own more than half of all shares issued in the United States.[42]

The gradual shift from private to collectively managed capital was initially interpreted as socialization by stealth in property relations.[43] Peter Drucker, for instance, who was one of the first to comment on this trend, wrote of the advent of pension fund socialism.[44] Paradoxically, however, the collectivization of stock ownership led not so much to improvements in the position of employees or small savers, but rather to greater shareholder power, and ultimately to a kind of investor capitalism, to use Michael Useem's expression.[45]

Their responsibility for large sums of capital and their financial expertise made institutional investors an increasingly important group for business management to take into account. The balance of power between management and shareholders shifted in favor of the latter. The administrators of collective funds, for instance, financed a sizeable proportion of takeovers in the 1980s.[46] Some started pursuing more active policies of their own. Public servants' pension funds took the lead here. Unlike the more cautious company pension funds, they adopted a critical, activist approach to management.[47] It was the Californian teachers' pension fund CalPERS, for instance, that set up the Council of Institutional Investors, which started coordinating the actions of major shareholders in

1984.[48] In publications, at shareholder meetings, and in regular consultations with managers, they advocated a business orientation that would be based consistently on shareholders' interests. That meant higher returns, more transparency about the company's aims, and better and more regular flows of information.[49] Companies that underperformed in these areas saw their share prices fall, increasing their vulnerability to a takeover.

Dependency on the stock market forced the management to adapt to the new balance of power, and many top managers did so by securing better pay and protection. Provisions for golden parachutes in the event of dismissal, together with share and option plans were soon standard elements of managers' contracts. With pay dependent on share prices, the interests of top management and shareholders coincided far more than before, and increasing shareholder value came to prevail over other company objectives. For instance, while the share of company profits paid out to shareholders had been falling for over fifty years, since 1980 companies have been paying higher dividends instead of reserving money for investment.[50] Other measures too that have become widespread, such as buying shares in your own company, reflect the changed relations between shareholders and management. The consequences for top management salaries regularly reach the press. According to a survey conducted by the US magazine *Business Week*, in 1965 an American company chairman earned an average of just over forty times the wages of a factory worker; thirty years later he earned more than four hundred times as much.[51]

The rise of organized institutional investors not only explains the shift in the balance of power in the business sector, it also explains to a large extent the boom in share prices in the 1980s and 1990s. It was institutional investors, and in the United States above all pension funds, that purchased shares on a large scale from 1980 onwards.[52] Once that process was underway, it acquired a self-perpetuating momentum. As long as major investors were convinced that other investors were still buying shares, they too went on buying, even though share prices seemed rather high. For professional investors the important thing is not so much to determine which shares have the highest return, but to find out which shares are likely to be most popular with other investors. Once someone thinks he knows the answer to that, he will behave accordingly. In other words: professional investors tend to do what they expect significant other investors to do.[53]

This *enlightened mimicry*, as it may be called, reinforces the cyclical pattern that characterizes financial markets.[54] Anyone who expects that more people will be buying than selling will also tend to buy. And vice versa. What is a rational decision for each investor individually leads to collective consequences that are no longer rational. The stock market bubble at the end of the twentieth century is a recent illustration. During the Internet rage of the late 1990s, the managing director of a major Dutch investment fund said that he and many of his colleagues were actually "pessimists who had invested to the hilt." That is a comment that can only be understood as an expression of a social mechanism: these investors themselves thought share prices unjustifiably high, but they did not sell them, because they evidently suspected that there were enough others who did believe in them. The mechanism of enlightened mimicry works the same way among analysts and advisors: they advise people to do what they expect most others to be advising.[55]

International comparisons and the explanation of convergence

The United States and to a lesser extent the UK undoubtedly led the way in the stock market boom of the 1980s and 1990s, but similar trends were soon making themselves felt in continental Europe and Japan. This prompted surprise and resistance, and requires further explanation, since there are structural differences between Anglo-Saxon and the so-called "Rhineland" economies.[56] These differences relate not just to labor relations and industrial organization,[57] but affect property relations too.

In continental Europe and in Japan, shares are concentrated more heavily in the hands of banks and companies that belong to networks of relatively stable and reciprocal relations. In consequence, "hostile" takeovers are uncommon there, bank loans are a more important source of financing than issuing shares, and the stock market in these countries is smaller and less dynamic. These differences are still considerable. While American companies own virtually no shares in other companies, in Japan, for instance, about half the shares are owned by other firms; in Germany the proportion is 40 percent, and in France 35 percent.[58] The value of bank loans to companies in Europe, when compared to GNP, is about three times as large as in the United States. And the total value of the stock market, or market capitalization, in Europe and

Japan – again in comparison to GNP – is about half that of American stock exchanges.[59]

The financial regimes of industrialized countries display significant variations that are related to differences in economic development and to the process of state formation in the countries concerned.[60] Even so, shareholder value and the trade in shares have also moved to the fore in continental Europe and Japan.[61] The social mechanism at work here is at least partly the same as that in Anglo-Saxon countries: in the Rhineland economies too, major institutional investors have come into existence, particularly investment funds, which have taken to promoting their interests more actively than in the past. Thus, German, French, and Japanese institutional investors currently own 15 to 25 percent of the shares issued in their countries.[62] Moreover, another 15 to 30 percent of the shares in these countries are in the hands of foreign institutional investors. This means that significant groups of major shareholders have come into existence, which are not part of the traditional network structures around banks and companies and have weaker ties with the companies of which they own shares.

Not only has the composition of the group of major shareholders changed, companies now find themselves in a different position than before. They are more dependent on international connections for purchasing components and materials, for the marketing of their products, and for financing their activities. International competition means, for instance, that it is becoming more and more common for European and Japanese companies to be listed on the stock markets of London or New York. This has an impact, for instance, on the applicable norms for shareholder value there. Transnational dependencies of this kind also weaken the national networks in which these enterprises were incorporated and make companies gear their actions to the demands of global markets, including capital markets.

These two developments, the rise of institutional investors with weaker ties to the firms they partially own and the growing global interdependencies, explain why, in spite of enduring differences, trends have arisen in Europe and Japan similar to those in Anglo-Saxon countries. The changes in France provide a good example. According to a recent study, 45 percent of the shares of the largest French companies are owned by foreign funds.[63] The increased interest of above all foreign institutional investors has led to an unprecedented level of shareholder activism, and a radical change in attitudes to shareholder value among the senior management of French companies.[64]

This explanation for the increased power of shareholders is in need of further elaboration and scrutiny, but it illustrates the approach to which I briefly referred at the beginning of this paper. The dynamics of the stock market at the end of the twentieth century was primarily linked – this is the proposition – to the formation of a relatively new group of powerful shareholders. The collectivization of stock ownership triggered an unplanned, self-reinforcing dynamics, that was not controlled by any of the participating parties and that led in turn to unforeseen shifts in the balance of power between all those who were in any way dependent on the stock market. The executive management of major companies has been able to compensate for their greater dependency on capital providers by introducing a new and highly profitable system of payment. For many employees, the greater dependency on the stock market has reinforced the trend towards flexibilization of labor relations and growing insecurity, often combined with a relative drop in income.[65]

This development has not taken place in the same way and to the same degree everywhere. More or less enduring differences in financial regimes continue to exist across nations and regions, but because of the emergence of powerful global investors and of increasing transnational interdependencies a trend has arisen that is also making itself felt in countries where the stock market is traditionally of less significance, and where shares are still to a large extent in the hands of banks and other companies.

The historical sociology of financial regimes

The development of the stock market and the trade in stocks and shares can hence be seen as a long-term social process. The buyers and sellers of stock, together with groups of intermediaries (brokers, commission merchants and analysts) make up a financial regime, which can be conceptualized as a relatively autonomous field of power and dependency relations. The specifically economic aspects of this regime too, such as price formation and developments in share prices, can be construed as a function of the social dynamics of this constellation. Taking this general sociological principle as the point of departure, I have briefly outlined the development of the stock market

and presented an interpretation of the changes it went through especially at the end of the twentieth century. While the sociology of finance has made significant contributions both in the more distant past and in more recent years,[66] one of the challenges facing the new economic sociology will be to develop research into the social structure of the financial world from a more explicitly historical and comparative perspective. For such a historical sociology of financial regimes, it will be essential to include a long-term view.

Endnotes

* Slightly revised version of an inaugural address for the chair in the social sciences, in particular in the sociology of long-term processes (Norbert Elias chair), given at Utrecht University. I should like to thank Johan Goudsblom, Tom Schram, Geert de Vries and Nico Wilterdink for their comments. Translated from the Dutch by Beverley Jackson.

1 Chesnais (1996) provides a general overview. For stock market oriented overviews see Binswanger (1999), Kaufman (2000) and Shiller (2000), for monetary trends see Helleiner (1994) .

2 Mackenzie & Millo (2003).

3 The reference is to annual turnover on the "official" market (calculated on the basis of data supplied by Euronext market).

4 On the basis of a comparison of different studies (NIPO, Center for Marketing Analyses, *Totaalonderzoek Financiële Diensten*, CBS (Statistics Netherlands) for the years 1996–1998, the Central Bureau of Statistics (CBS) concluded that in 1998 about 1.7 million households in the Netherlands invested directly in the stock market (whether in shares, bonds, options or investment funds).

5 Financial thrillers were initially written by people working in the financial world in the 1980s, authors such as Po Bronson and Stephen Frey in the United States, and Linda Davies and Michael Ridpath in the United Kingdom. The genre was inspired by bestsellers like Tom Wolfe's *Bonfire of the Vanities* (1987) and Michael Lewis's autobiographical account *Liar's Poker* (1989).

6 Since the social sciences became increasingly divided into different disciplines in the twentieth century, economic issues were increasingly left to economists and became marginal in other disciplines. Thus, sociologists came to ignore the specifically economic questions (price formation, money, market theory) and business firms were primarily studied as labor organizations: economic sociology gave way to the sociology of work, professions and organizations. In comparison to the academic founders of the discipline (Weber, Simmel, Sombart, Durkheim, Simiand, Pareto) this was a narrower, impoverished approach (cf. Blomert 2001, Gislain and Steiner 1995, Heilbron 2001, Swedberg 1987). The recent interest in financial markets and institutions clearly reflects this division of labor by discipline. Economists focus on price formation and capital flows, political scientists are mainly interested in questions of regulation and governance, anthropologists focus on the culture and the interaction rituals of brokers, while sociologists have largely concentrated on social networks and institutions. For overviews of the main approaches, see Smelser and Swedberg (ed. 2005), Underhill (2000), Lindh de Montoya (2000). Among the most remarkable recent contributions are a small group of detailed, largely anthropological studies (see Abolafia 1996, Cardon et al. 2000, Godechot 2001, Kalthoff et al. 2000, Knorr-Cetina & Preda 2004, De Goede 2005). These are linked to studies such as De Regt (1993) and Zelizer (1994). From a comprehensive historical-sociological perspective, a highly relevant study is that of Arrighi (1994), which is based on an analysis of long-term cycles.

7 See Goldsmith (1987). The Hamilton quotation is cited in Andreau (1999: 122).

8 On state formation see esp. Elias (1939) and Tilly (1990); the development of government revenue and expenditure in Europe has been documented in Bonney (1995, 1999). On economic growth, see Goudsblom (2001: 76–93).

9 In Holland, interest rates fell from over eight percent in 1580 to four percent in the mid-seventeenth century (see Hart, Jonker and Van Zanden 1997); French, Spanish and English rulers had to pay considerably more (see Parker 1974). Historians refer to the Dutch and British innovations as a "financial revolution" (Dickson 1967, Tracy 1985). On relations between the Dutch and English exchanges see Neal (1990).

10 The divergence in the creditworthiness of states is related to the distinction that Charles Tilly has drawn between a capital intensive and "coercion intensive" trajectory of state formation (Tilly 1990).

11 On the contrast between France and the UK, see Carruthers (1996), Kennedy (1988: 76–86), Root (1994), and especially Hoffman, Postel-Vinay & Rosenthal (2000). In spite of the attempts of Law, Turgot, Necker and others, the structural reform of France's public finances proved impossible and the French state ultimately collapsed under its burden of debt: the sociological theory of the state here becomes a theory of revolution. Revolutions arise not so much from conflict between classes and economic exploitation as from the struggle that is generated by state and taxation crises (Collins 1993).

12 This was originally a system developed by merchants for use with debentures and bills of exchange (Van der Wee 1991: 183).

13 Over the years, the variety of available stocks and shares has increased enormously, and numerous financial products have become tradeable – a process of securitization.

14 One of the main conditions for liquidity is the standardization of the securities to be marketed. For a sociological analysis, see Carruthers and Stinchcombe (1999).

15 On parliamentarization, see Elias and Dunning (1986); on the non-repayment of the public debt, see Van Zanden and Van Riel (2000: 34–35).

16 Braudel (1989, vol. 2: 414).

17 De Vries and Van de Woude (1995: 450–462).

18 Van Dillen (1970: 453); Smith (1939).

19 In his institutional history, Michie places great emphasis on this point. Before the founding of the London stock exchange there was a "market" for stock, but not an "exchange". But the institutionalization was a capricious process riddled with conflict; trade was constantly being conducted outside official channels. In Paris and elsewhere "trading behind the scenes" was an ineradicable presence, and the official market and its unofficial counterpart were locked into permanent rivalry (Lehmann 1997). For many years, the Netherlands had two rival associations, "Het Collegie tot Nut des Obligatiehandels" (1780–1857) and the "Nieuwe Handel-Sociëteit" (1833–1857) (De Vries 1976).

20 See Michie (1999: 89), Lehmann (1997: 16), De Vries (1976: 33).

21 Cameron et al. (1967), Pollard and Ziegler (1992), Sylla (1998).

22 In the mid-nineteenth century, railroad companies accounted for almost 20 percent of the value of the London stock exchange. By 1900, they accounted for half of this value (Michie 1999: 89). Much the same trends were seen in France: 12 percent in 1851 and 40 percent in 1900 (Lehmann 1997: 21). The expansion of the railroad network generated a boom in this stock in many countries. Much of this trade took place at provincial markets, where local railroad companies were listed, and was accompanied by a flood of informative material and plain advertising. Guides, pamphlets, manuals and almanacs started appearing for the first time on a large scale with details of how citizens could best invest their savings (Preda 2001).

23 Preda (2001).

24 De Vries (1976: 35).

25 Baskin and Miranti (1997: 132–133), Sylla (1999).

26 The interrelatedness of state formation and market dynamics is a key theme in economic sociology, cf. Polanyi (1944); for present-day examples of this approach, see esp. Bourdieu (2000) and Fligstein (1990, 2001). For economic-historical studies based on a comparable approach, see Van Zanden and Van Riel (2000) and Sylla, Tilly and Tortella (1999).

27 On the development of big enterprise viewed from a sociological perspective, see Fligstein (1990), Roy (1997), Stokvis (1999).

28 According to Mary O'Sullivan, the issue of shares was not an important source of financing for the rise of industrial companies. In the United States, for instance, only six percent of shares were truly tradeable around 1900 (O'Sullivan 2000: 49, 75).

29 See Stokvis (1997) and Van Zanden (1997).

30 Cf. Lazonick and O'Sullivan (1997a, b).

31 Michie (1999: 89).

32 Michie (1999), Wilterdink (1993).

33 On the United States see Sylla (1999), on France see Kindleberger (1984: 114–115), on Germany see Tilly (1999), on the Netherlands see Hart, Jonker, and Van Zanden (1997).

34 For a general analysis, see Goudsblom (2001: 45–59).

35 There is neither theoretical nor empirical agreement among economists concerning the question of which financial systems are most efficient in the broad sense of the term, bank-based or market-based systems, cf. Allan and Gane (2000). But the issue of the relative efficiency of financial systems is a paradoxical one. It cannot really be answered without taking the wider social context into consideration (legislation, modes of regulation, cultural traditions), but once such factors enter the picture, the scope for formal models diminishes, and economists tend to lose interest.

36 Cf. Chesnais (ed.) (1996), Kaufman (2000), Guilhot (2004).

37 Cf. Augur (2000) for an inside view on the changes in the London financial world.

38 For an analysis of these changes, see Brenner (1998).

39 The changes in this period were accompanied by the rise of the new academic discipline of *finance* or financial economics. What had been a largely applied and practical field became a full-fledged academic sub-discipline (see Whitley 1986). Among the leading specialists in this new financial economics were the exponents of "agency" theory (Jensen, Meckling). They regarded a private enterprise as a contract between a principal (the shareholders) and an agent (management), whereby the agent should promote the principal's interests. This view reduces the whole question of entrepreneurship to a problem of shareholder power.

40 On the dissemination of anti-Keynesian market fundamentalism, see Dezalay and Garth (2000) and Dixon (1998).

41 O'Sullivan (2000:156).

42 In the United Kingdom this percentage is higher still: over two-thirds of stock is owned by institutional investors; see Davis and Steil (2001: 297). For a description of institutional investors in the UK, see Golding (2001).

43 On this shift and the trend toward "collectivization," see Wilterdink (1984) and De Swaan (1987).

44 Drucker (1976).

45 Useem (1993, 1996), see also OECD (1997, 2000) and Fligstein (2001: 147–169).

46 Cf. Baker and Smith (1998: 224).

47 Useem discusses the activism of public servants' pension funds in terms of "pounding on the private sector for public gain" (Useem 1996: 56).

48 On shareholder activism see Davis & Thompson (1994), Useem (1996), Smith (1996).

49 These issues were at the heart of the debate on corporate governance, on which subject numerous influential reports were published throughout Europe in the 1990s. The increased influence of shareholders is the central topic of this ongoing debate; see OECD (1998).

50 For the development of the 'pay-out ratio,' see Van Zanden (1997: 68) and O'Sullivan (2000: 192).

51 Quoted in O'Sullivan (2000: 200); see also <http://www.payatch.org>.

52 In the United States a new pensions act, the Employment Retirement Income Security Act (ERISA, 1974), was the main factor that induced pension funds to spread their investments more widely and to invest more in shares. In 1980, Dutch pension funds had invested only four percent of their portfolio in shares; by 1998 this figure had risen to 40 percent (CBS 2000: 24, 53).

53 Since share prices depend on the valuation of a large group of investors, expected shifts in this valuation are of strategic importance. Some investors focus largely on the early detection of such trends. Keynes therefore compared speculation to a beauty contest, in which the aim is not to determine which is the most beautiful girl, but to predict which girl the jury will like most (Keynes 1936: 156). One of the most popular ways of predicting market trends is the now universally accepted "technical analysis." This method consists of analyzing price graphs in combination with data on the volume of trade. "Bottom" and "resistance" lines are drawn, based on previous price graphs; is a "resistance" line is crossed in an upward direction while the volume of trade is sufficient, it is a signal to buy; if the share price falls below a "bottom" line it is time to sell. Economic arguments play no role whatsoever here; the analysis rests solely on the hypothesis that past investor behavior will be repeated in the future: if investors tended to buy at a certain share price level in the past, they will do so in the future. If enough investors believe in this approach, the mechanism of the self-fulfilling prophecy comes into play.

54 On the recurrence of bull and bear markets see Chancellor (1999) and Kindleberger (1978); on the stock market rage at the end of the twentieth century, see Shiller (2000).

55 To go against the trend is dig your own grave, or as investors like to say, "the trend is your friend." One market analyst commented in an interview that if the new CEO of a company makes a good impression, he is obliged to issue a positive advice: "Because I know that other analysts and investors will be favorably impressed and that prices will rise." (Interview with Robin Fransman of Van Lanschot Bankers in the daily newspaper *NRC Handelsblad*, August 9, 2001).

56 See Albert (1992). Albert's essay is an example of the trend of using a comparative perspective primarily to emphasize differences and to shield them from the threat of global standardization. Such an approach makes it difficult, however, to understand and interpret similar trends.

57 Cf. Crouch and Streeck (ed.) (1997), Whitley (1999), Windolf (1999).

58 The figures relate to 1998, see Davis and Steil (2001: 297).

59 In 1999 the value of bank loans to companies was 12 percent of GNP in the United States, as against 45 percent in Europe. Market capitalization was about 180 percent of GNP in the United States, as compared to 90 percent in Europe and just over 100 percent in Japan; see European Union, *Initial Report* (2000).

60 According to Gerschenkron's classical explanation, national features of this kind are largely explicable by differences in the phase of industrialization. In Britain sufficient capital was available to finance industrialization. In countries that underwent industrialization at a later stage and had to compete with Britain, banks were necessary, while in countries in which industrialization took place even later (e.g. Russia) the state naturally took a leading role in financing it (Gerschenkron 1962). Gerschenkron however pays too little attention to the interrelatedness of state formation and market formation to be truly convincing; some of the national differences he discussed are older than he suggests (cf. Sylla, Tilly and Tortella 1999). For a thorough analysis of Gerschenkron's thesis see Forsyth and Verdier (eds.) (2003).

61 Michel Albert identified this trend (with regret) in 1991; Ronald Dore presents a similar analysis and conclusion, but his focus is on Japan (Dore 2000).

62 Davis and Steil (2001: 297). The divergence in the role of institutional investors is to a large extent attributable to differences in pension systems. In countries that use an unfunded system, pensions are paid directly from pension contributions, and there are no pension funds. Only in countries with a funded system are pensions paid from accumulated financial reserves that have to be administered and invested.

63 *Le Monde*, June 15, 2001.

64 Cf. Morin (1998).

65 See Wilterdink (1993, 1998, 1999). On the dissatisfaction with the new labor relations, see Sennett (2001), on the new social anti-globalization movements, see Starr (2000).

66 For overviews see especially Blomert (2001), Keister (2002), and the chapters by Linda Brewster Stearns and Mark Mizruchi (Banking and Financial Markets) and Bruce Carruthers (The Sociology of Money and Credit) in Smelser and Swedberg (eds.) (2005).

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