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Economic Sociology and the Sociology of Finance. Four Distinctions, Two Developments, One Field?

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Are there significant distinctions between economic sociology and the sociology of finance? Are such differences anchored in existence, do they have something to do, that is, with how the economy and finance function and are articulated in the contemporary world? In this paper I contend that we do indeed witness the branching off of two distinctive fields which, surprisingly perhaps, do not have a common history or origin. In other words, the study of finance and financial markets as we see it happen now is not simply an outgrowth of the new economic sociology that emerged since the 1980s. Nor has economic sociology in general with its long history and several ups and downs developed in a way that makes the turn to finance the logical next step for it to take. Two systems that co-exist may have overlaps and become coupled. Some researchers have, during their lifetime, contributed to both areas. Max Weber wrote an early, recently republished, astute essay on the stock exchange, though most of his work tackles larger and more general issues summarized in *Economy and Society* (2000 [1894]). Baker applied network concepts to securities markets at the onset of the new economic sociology (1981, 1984), and Zelizer's recent work on circuits of commerce (2005) is an attempt to develop a unifying concept that potentially serves both areas. Yet most scholars that have long made distinguished contributions to economic sociology remain concerned with the foundational issues of their field – the phenomena of embeddedness, of networks and interfirm relationships, of producer markets, and of the role of culture in economies and corporations. And most studies of finance do not pursue these lines of reasoning but rather develop fresh concepts and ideas that draw on outside areas in their theoretical analyses.

What are some of the core differences between economic sociology and the sociology of finance and how are they motivated? In the following, I offer four arguments designed to capture and account for some of the distinctions between these areas.

First difference: Unlike the recent sociology of finance, economic sociology has focused on producer markets and the production side of the economy. Let me begin with a bit of history. According to a wealth of statistics, finance has risen in importance in the last quarter century more rapidly than any other sector of the economy. Since it bottomed out in 1982, the US stock market experienced its most dramatic increases in prices in history when long term data from 1871 to 2000 are considered, and large stock price increases also occurred in Europe, Asia and Australia. In the period between 1981 and 1986 alone the volume of US public bond issues rose at an annual rate of 37%, equity issues almost tripled, the dollar volume of mergers and acquisitions activity tripled, and the volume of international bonds multiplied fivefold (Eccles and Crane 1988: 1). There were since then several readjustments of the spiking of prices and activities (examples are the 'Black Monday' of October 19, 1987 when the Dow Jones Industrial Average dropped 508 points, and the market decline in 2001 and 2002). Nonetheless, the level and diversity of financial activities appears to have increased significantly since the 1980s. More importantly, perhaps, awareness of the financial system, of the risks and benefits it offers to individuals and organizations, has also risen. As Sassen shows (e.g. 2005), the stock of financial assets has increased three times faster than the aggregate GDP of the 23 highly developed OECD countries since 1980, and the volume of trading in currencies, stocks and bonds has increased five times faster. Most of this activity is financial market activity. For example, the global foreign direct investment stock was US\$ 6 trillion in 2000, while the worldwide value of internationally traded derivatives was over \$US 80 trillion and rose to US\$ 192 trillion in 2002. The largest financial market in terms of volume of transactions, foreign exchange transactions, were ten times as large as world trade in 1983 (the economic exchange of goods and services), but 70 times larger in 1999, even though world trade also grew sharply during this period (Sassen 2005).

Financial markets, then, have experienced an unprecedented rise since the early 1980s, and their power to determine outcomes in production, consumption and social welfare is now enormous.² Yet they have not found much attention in sociology. This is surprising in light of the

sharp upturn economic sociology has taken during the same period and the pioneering work that has happened since (e.g. Granovetter 1985; Zelizer 1985; Burt 1983; Fligstein 2001; Podolny 2001; Dobbin 1994; White 2002). Why the relative inattention? One answer surely is that the new economic sociology has defined its territory in a way that seems more attuned to the production side of the economy than to finance. Economists have circumscribed economic activities as that set of pursuits which involves the use of scarce resources to satisfy some human needs or wants – and they have broadly classified these activities into the categories of production, consumption and exchange (Dholakia and Oza 1996: 7). Economic sociology also defined economic behavior in these terms – in terms of the institutions and relations of production, consumption and social distribution (e.g. DiMaggio 1994: 28; Smelser and Swedberg 1994: 3; Portes 1995: 3). In their research, economic sociologists have focused on the production side of the economy, taking the firm as their point of departure – in line with the distinctive role production has played in the discipline's understanding of capitalism and with the focus early economic sociologists placed on the internal working of organizations (Swedberg 1991; Caruthers and Uzzi 2000: 486). Though a number of early studies were concerned with financial markets (Smith 1981; Baker 1984; Adler and Adler 1984), most recent research has not been in this area but has involved a shift from what goes on within firms to what goes on between them. The dominant line of research specializes in the analysis of interorganizational ties, in effect joining organizational analysis and market analysis through the use of network approaches that inspiringly analyze the nature of the relationships and networks and how these affect labor, product and credit-seeking (e.g. Baker 1990; Burt 1993; Bandelj 2002; Baker et al. 1998; DiMaggio and Louch 1998; Uzzi 1999; Uzzi and Lancaster 2004). When markets are analyzed they tend to be producer markets, e.g. markets for industrial products and non-financial services. Interestingly, economic sociology in Europe until recently also set aside financial markets, focusing instead on macro-issues of the economy. Current research appears particularly concerned with the transformation of the welfare state and its social consequences, changing economic policies, varieties of capitalism and the like (e.g. Hall and Soskice 2001; Deutschmann 2002; Streeck and Yamamura 2003; Beckert 2006).³ Both the new economic sociology that thrived in the US and European economic sociology with its more industrial, macro-economic and political concerns also neglected consumption, an area that developed into a special subfield of sociology within the ASA.⁴

The new economic sociology in the US also emerged from a new engagement of neoclassical economics that moved away from the "truce" between economics and sociology. Parsons is said to have negotiated earlier (see Swedberg 2003: 33), a truce that gave economics the core economic matters and sociology the contextual and peripheral things. Granovetter, we all know, attacked neoclassical economics for wrongly assuming "atomized" decision making by individual economic actors. He proposed the opposite – decision making was embedded in networks of social relationships that should be studied to correct neo-classical and related models. This proposal did indeed open up the "virgin lake" and "goldmine" of solvable research questions that Granovetter foresaw (cited in Swedberg 2003: 35). But the focus on embeddedness, in its narrow as well as in its broader definition (as cultural, political and social embeddedness [Barber 1995]), left the core financial activities untouched. More precisely, research in economic sociology glossed over distinctions between different kinds of economic action and particularly between producer markets and financial markets in an effort to address the question how activities are embedded in social structure. Research has treated financial markets as implicated in firm's behavior and as outcomes of firm-bank relations, but the focus of the analysis remained the firm or the industry rather than the stock exchange and trading floor (see Keister [2002] for a summary of this literature). While this research does not reject differences between markets, it is also not designed to capture the types and patterns of social structural and cultural variation that a "multiple market" – model postulated early in economic sociology (Zelizer 1988; see also Mirowski 2002: 539) suggests. Yet some of these differences, for example that between producer markets and financial markets, are consequential for almost every level of analysis of markets.

Second difference: Finance and production are two distinctive areas of activities and need to be differentiated in research. Financial markets are not primarily concerned with the production of goods or with their distribution to clients, but with the trading of financial instruments not designed for consumption. No "production" effort on the traders' part is involved in "spot" transactions, the direct sale or buying of a financial instrument. When more complex instruments are traded (options, futures, etc.), their value tends to be calculated on the spot by traders themselves without recourse to production facilities. Financial markets belong to a second order economy in which "goods" are contracts that circulate rather than become channeled to end consumers. These goods (financial in-

struments) are abstract entities which may not even be pieces of paper but merely an entry in the books of relevant parties; the value of these entities is determined by financial market activities and is only tenuously related to the underlying referent (e.g. a company). The shift from concrete funds to abstract entities epitomizes the decoupling of financial markets from the ordinary economy of production, consumption and exchange.

The second aspect of this decoupling has to do with the forms of action prevalent in financial markets, which are investment and "speculation." Consider the example of the foreign exchange market where "actuals" (currencies) rather than contracts are traded in spot transactions. Historically, currency dealers provided services for importers, exporters, and others who needed foreign exchange to pay bills and pay for goods. They were intermediaries in conventional trading oriented to the transfer of goods from producers to consumers. But only a tiny percentage of the current daily trading volume in foreign exchange (about 1.2 trillion US dollars in 2001; BIS 2002) reflects "real" requirements of companies; the daily volume of dollar transactions in this market is approximately 200 times larger than the added volume of US merchandise imports and exports, plus other sales that require foreign exchange (e.g. Caves et al. 1999: 420). Thus, most foreign exchange dealing today is speculation not motivated by needs for the product obtained but by the motive to gain from expected price changes of the currency when it is resold. Speculation and the seemingly endless circulation of the entities traded also differentiate other financial markets not only from producer markets but also from merchandise and service trading, which is oriented toward the transportation of goods from one location to another and toward consumption at the end of the trading chain. Theoretically speaking, financial markets appear to be internally differentiated, complex self-referential systems whose functioning, forms of action, and other mechanisms pose questions in their own right – quite apart from the aggregate consequences these markets have on economies and corporations. There is, in Granovetter's language, another virgin lake before us (not fully untouched, of course - see the early studies of these markets cited above) that warrants fishing expeditions by social scientists. It is this discovery project that I think the sociology of finance and financial markets has embarked on.

There is a third reason for the decoupling of financial markets and producer markets: their separate historical development. According to some historians, the emergence of

financial markets was not simply part of industrialization but preceded and then enhanced production-based capitalist developments (e.g. Rousseau and Sylla 1999). More recently, financial markets became de-synchronized from the global system of production through successive waves of liberalization of capital flows and financial services from the control of individual nation states (see the overview in Swary and Topf 1992). For example, the removal of barriers between national financial markets, particularly currency markets in the last decades of the 20th century, enabled the emergence of a system in which economists consider frictions and impediments to be minor and which appears in fact beyond the control of any regulatory structure. Production systems remain more deeply embedded in national regulatory environments that affect many aspects of the workforce they require, e.g. the plants, the equipment, the ecological aspects of production, among others. The historical uncoupling manifests itself in the transformation effects of financial capitalism on industrial capitalism and the political system. As we know, capital markets have become major funding alternatives to banks as a source of debt financing for industrial corporations, with consequences for employees' compensation, now frequently including stock options, which shifts the power from managers to shareholders (e.g. Fligstein 2001: ch. 7; Zorn et al. 2005), and changes in the structure of accounting, among others. In the US and UK, less than 30% of corporate finance came from commercial banks before the turn of the century (Chernow 1997). The system has also shown a considerable tendency for internal expansion, evolution and intensification – of instruments, trading strategies, professional roles, and so on. Financial markets have been a laboratory and breeding ground not only for the creation and proliferation of financial instruments but also for the "intensification of finance" (Bryan and Farrell 1996) that manifests itself in the dramatic rises in trading volume and cross-border investment. The uncoupling can also be gleaned from the role currency markets play as an independent power in testing and determining the value of currencies against the authority of central banks and governments. This illustrates the more general role of some financial markets as external observers and evaluators of national macroeconomic policies that are signaled in economic indicators and exchange rates.

Third difference: In contrast to economic sociology, the sociology of finance needs new concepts to understand finance and financial markets as complex systems in their own right. The sociology of finance and financial markets took off since the late 1990s, with publications increasingly

appearing in English, French and German since the turn of the century (see among others Mars 1998; Callon 1998; Preda 2001, 2006; Miller 2002; Knorr Cetina and Bruegger 2002); Muniesa 2003; MacKenzie and Millo, 2003; Zaloom 2003, 2006; Knorr Cetina 2003; Kalthoff 2004; Godechot 2005; Hassoun 2005; Beunza and Stark 2005; Windolf 2005; McKenzie 2006; Staeheli 2007). Institutional efforts centered on the field (e.g. specialized conferences, journals and research groups studying financial markets) also appeared since that time. However, unlike the new economic sociology for which Granovetter provided a road map and supplied a theoretical framework (and pointed out a methodology – network analysis), the recent sociology of finance starts not from a paradigm but from a set of open questions. How can we define an activity like speculation? How did this activity become historically differentiated from gambling with which it was once identified? What is the architecture of financial markets? Is there a level of sociality in markets that are assumed to be models of economic efficiency and the outcome of anonymous activities by atomistic actors? And how do we deal with some of the most distinctive features of these markets, their knowledge and information base, their complex technological underpinning and their global character? Financial markets do lend themselves to extensions of embeddedness analyses, as Baker's (1984) early network analyses show, but they also pose more general questions that appear urgent in light of these markets' functioning as driving factors and iconic elements of a postindustrial and global world. Moreover, network forms of coordination were at times deliberately bred out of financial markets with the help of technology (Knorr Cetina 2003) – yet this does not mean that these markets are not in other ways social and cultural forms. While it will be necessary to learn from the embeddedness-paradigm and to apply it where appropriate, it is also necessary to draw on the larger toolbox of sociological concepts and theories when we study these markets.

As an example, consider the global character of financial markets. One can argue that the distinct historical development of financial markets, their separation from producer markets as well as their early deregulation has put these markets on a track towards globalization – some financial markets (e.g. currency markets) have in fact long been transnational. In other words, the financial system can arguably be considered a structure of the world rather than of national societies. Economies, on the other hand, have typically been localized; they are the economies of nation states. They depend on national regulatory frame-

works and institutions, tax and social security systems, national policies and interventions. They use national currencies and presuppose the existence of a national central bank. Their localized character is reflected in national economic indicators and in the attention given to them. Financial markets, in contrast, appear delocalized and disembodied (in Giddens' sense). Social geographers have long noticed this transnational character – they were among the first to observe the concentration of financial markets in global centers that are interconnected across time zones and continents (Sassen 2001; Leyshon and Thrift 1997). Not all financial markets, one should add, are equally global. While currency markets are inherently transnational markets, bond and equity markets are not, though they have become increasingly global in the most recent globalization wave. As Sassen (2005) shows, the value of cross-border transactions in bonds and equities as a percentage of GDP in the leading economies was 4% in 1975 in the U.S., 35% in 1985 when the financial era was in full swing, and rose to 230% in 1998. This share grew from 5% to 334% in Germany, and from 5% to 415% in France. Similar arguments can be made for exchanges which used to be national institutions but are in the process of forming global alliances. The global character of these markets poses the question whether there can be a level of integration of markets that are distributed in space, what mechanisms beyond economic transactions link together these markets, how we can understand the transnational systems of communication in terms of which participants interact (as purely economic speech acts?), and so on. In fact, most questions related to the phenomenon of globalization and a world society can be posed in this context. The study of global financial markets also offers answers to more general globalization-related questions – as a specialized, bounded domain, it can be researched in depth in real time – we do not have to contend with the difficulties of multicultural aggregate statistics, questionable categories, etc. that globalization research struggles with. In addition, the financial system is a sociologically and culturally innovative expert system that experiments with creating and managing global forms. Accordingly, the answers we get from this research can tell us something about the structural components of an emerging global society.

Fourth difference: The financial system is a knowledge system, and the sociology of finance and financial markets must include questions of knowledge and technology in its research. There are many ways in which knowledge and information are an intrinsic part of financial systems.

Economists, one should note, long assumed such a link; it emerges from the economists' view that knowledge is contained in and extractable from asset prices or that the latent function of capital markets is to provide information for decision making. It also emerges from the analysts' usage, in studies of foreign exchange trading patterns, of the number of transactions as a proxy for the information arrival process (for detailed references to this literature see Knorr Cetina and Bruegger 2002). To conceptualize the importance of knowledge in this area we can build on these ideas. The information contained in prices, for example, not only helps dealers make decisions, it stimulates deals. In other words, the information arriving with price changes continually excites the system into further trading. Thus the speculative "exuberance" (Shiller 2000: 3) and the volatility that is a characteristic feature of financial markets (as opposed to producer markets or consumption-oriented trading) appear intrinsically connected to the fast flow of information. Second, content-wise, the vast majority of market exchanges that are not pure dealing sequences involve knowledge and information. "What we are really dealing in," traders say, "is knowledge and information." Knowledge is also the means of relationship building in global fields. Participants exchange information to build and maintain business links. This "commerce of knowledge and information" is based upon principles of reciprocity and gift exchange (information offered as a gift establishes and manages relationships); and the circuits of information partly overlap with trading transactions. Last, the knowledge flows map the world in which traders move; these flows constitute the special lifeworld of a global social form that has disembedded, left behind its natural embeddedness in local and physical settings. I argue that market reality itself is knowledge-generated, having no existence outside the informational presentation of the market on the screen that is provided by news agencies, analysts, and traders themselves. The point is that the wider nexus of economic, social, and "lifeworld" functions of knowledge in this area must be included in investigations of finance. Questions of information are of course present also in the production economy, as Marx pointed out when he referred to the role of technology and machines as potentially alienating factors in industrial settings. But they are neither background variables (crystallized in equipment) nor source of alienation in financial settings. Information is scarce, intensely communicated, and highly valued. Most importantly, it is present in every aspect of finance and in the core activities of financial transactions.

Conclusion: It is tempting to argue that it is the intrinsic relevance of knowledge and information to financial activities that motivated scholars from science studies to take a special interest in finance. They surely brought with them an awareness of the potential characteristics and special questions posed by sophisticated technological and knowledge structures of this field. Did the intrinsic challenges of the financial system stimulate an interest from areas that were not part of economic sociology (social geographers, science studies) but found the challenges familiar? The answer, I think, is not so clear. Finance and financial markets have been a discovery project for everyone that looks at these areas. Financial information is in many ways quite unlike natural scientific knowledge; financial technologies do not correspond to the inscription devices and apparatuses that technosciences use; global systems of transaction are not the everyday fare of laboratory studies, and so on. I, for one, did not step on a trading floor in search of characteristics I had encountered elsewhere – I moved into this field believing that financial capitalism was the direction in which postindustrial societies were developing, and it interested me what that meant. It is rather, I suppose, the tendency to behave unsociologically – in the sense of including in one's research the core of an "alien" practice – whether it is the epistemic core of science or the speculative core of finance – that characterizes these recent efforts.

Where will it all end? My prediction, for now, is that we will see two specialized fields: one concerned with larger questions of the economy and society and precise conceptual tools to define and transcribe economic action as social action, and the other concerned with a multifaceted, impure and voracious domain that until now often defies dissection by precision tools – that of financial markets.

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Endnotes

- 1 It is also sometimes called social studies of finance to emphasize, as I see it, the analytical relevance of fields outside sociology to the topics studied.
- 2 To be sure, ours is not the first period in history that shows a heightened curiosity in financial markets. For some of these historical developments from a sociological perspective, see Preda (2001), Mirowski (2002), Staeheli (2007).
- 3 One assumes that this orientation will continue, given the changes now confronting the continent and the political problems, social consequences and issues of mentality that they invoke.
- 4 Which is not to say that no one in economic sociology ever addressed consumption issues. But those who do often have broader interests, for example in cultural sociology (e.g. Wuthnow 1996).

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