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Note from the editor

Dear reader,

Here is the Summer 2007 edition of the European Economic Sociology Newsletter. Most of the contributions in this issue focus on finance, a topic that has garnered a lot of attention by economic sociologists and scholars from other fields alike. Besides recommending all of the pieces in this issue for their stimulating content, I want to also say how pleased I am that the issue includes contributions by many women scholars. This was not an explicit intention on my part but I do consider it a significant reflection of how the field has progressed over the years.

I invited one of the key figures in sociology of financial markets, Karin Knorr Cetina (University of Konstanz and University of Chicago), to provide a lead editorial on the issue's focus. Professor Knorr Cetina generously responded to the invitation and wrote a stimulating piece on whether economic sociology and sociology of finance are significantly distinct as fields of inquiry, arguing that indeed they are different, along four lines, with diverse goals and different histories.

In the core of the issue, you will find empirical contributions from some very recent research in the economic sociology of finance, highlighting the role of social embeddedness, institutionalization and technological foundations.

Alya Guseva (Boston University) reports some findings from her forthcoming book on the creation of mass consumer finance markets in Russia, pointing to the critical role of networks that span two levels of analysis connecting organizations and individual actors.

Brooke Harrington (Brown University and MPIfG) provides a brief summary of research reported in her book *Pop Finance: Investment Clubs and Stock Market Populism* (forthcoming from Princeton University Press), on the "American investment craze of the 1990s," documenting the socially embedded activities of investor clubs, where retail investors pool their money to invest in the stock market.

Sabine Montagne (Université Paris-Dauphine) shares insights from her research on the American Pension Funds, uncovering the origins of the contemporary beliefs in the virtues of pension funds, and the legal transformation of the trust that contributed to the legitimization of finance.

Alex Preda (University of Edinburgh) turns our attention to the technological underpinnings of financial markets, examining the role price-recording technologies played in the constitution of a national securities market in the U.S., and how they came to affect transaction rules and roles.

I am also extremely pleased that Viviana Zelizer, one of the foremost experts in economic sociology, has agreed to share some of her thoughts on the field by responding to ten interview questions. I am sure that readers will find much food for thought and research ideas from her insightful responses.

As in previous issues we also assembled reviews of several new publications of interest to economic sociologists, which appear in the "Read and Recommended" section contributed by Olivier Godechot (Ecole Normale Supérieure), as well as in four book reviews on the topics of trust, transnational governance, economic sociology of Pierre Bourdieu, and organizational transformations of American manufacturing.

We also continue the section on doctoral dissertations, and report projects on themes as diverse as interlocking directorates, transformation of state-owned economy, socially responsible investments, and hi-tech marketing. If you are nearing the completion of your doctorate or have recently defended your dissertation, please consider sending in your summary!

The academic year 2006-07 is behind us and this is the final issue of EESN Volume 8. It is also my final issue as Editor. I am delighted that Patrik Aspers (University of Stockholm and MPIfG) has agreed to serve in this capacity for Volume 9. In line with the interdisciplinary spirit that we have tried to foster, Patrik's goals include devoting attention to fields like economic anthropology, business studies, economic geography and the like, in order to make the research in these related fields more familiar to economic sociologists. This is an excellent agenda and I wish Patrik a lot of success as Editor.

Finally, allow me to express my gratitude to almost fifty people who contributed to Volume 8, to the Editorial Board for their support, and to Christina Glasmacher at MPIfG who has assured the smooth production. Last but certainly not least, thanks go to all of you, readers/ subscribers, who now number more than 1300, and come from places well beyond Europe and North America, including Africa, Middle East, Oceania, and Latin America.

Keep reading, consider contributing, and encourage your colleagues and/ or students to sign up for a free delivery of EESN to their email boxes, at http://econsoc.mpifg.de/newsletter/newsletter_subscription.asp !

With best wishes for a wonderful Summer, and beyond,

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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?1 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; Carruthers 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 neoclassical 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 instruments) 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 frameworks 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 disembedded (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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The Role of Bi-Level Social Networks in Building Mass Consumer Finance Markets in Russia

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Economic sociology boasts substantial literature documenting the presence and importance of social ties in enabling and facilitating exchange in contemporary markets (e.g., Baker 1984; Granovetter 1985; Uzzi 1996; White 2002). But this literature is lacking in two important respects: (1) only a few of these accounts address the ties connecting sellers and consumers (and those that do are usually limited to small business and venture capital banking, see, for instance Uzzi 1999 and Mizruchi/Stearns 2001); and (2) to the best of my knowledge, none of these sources claim that networks are essential in constituting *mass* markets.

The first oversight reflects a more general trend in economic sociology (at least its structural wing) of placing the center of its intellectual gravity in matters of production rather than consumption. The second is at least in part indicative of the usual way in which networks are theorized – as a set of ties connecting nodes of the same level (either individual actors or organizations). I am going to demonstrate that when conceived of as ties that link both firms and actors, networks have been playing a key role in bringing about the mass consumer finance market in Russia.

The material for this article is part of the author's forthcoming book on the emergence of the Russian credit card market. Empirical data comes from fieldwork in Moscow, Russia in 1998-1999 and 2003-2005, which included interviews with representatives of banks, bank associations, companies that process card transactions and credit card networks, participation in card-related conferences and workshops, analyses of bank materials, industry publications and current periodicals.

The Twin Problems of Uncertainty and Complementarity

What do credit card markets teach us about consumption and the role of networks in constituting mass markets?

Emerging credit card markets are faced with two problems, uncertainty and complementarity (Guseva 2005). Uncertainly is the problem that exists in many markets and may even be ubiquitous in all markets (Beckert 1996), so I won't elaborate on it beyond what is obvious: that issuing a credit card (or extending a loan, more generally) is a beginning of a long-term relationship between the bank and the client, and lenders are uncertain about the repayment of borrowed amounts.

The problem of complementarity warrants a closer look. Economists and management scholars postulated the existence of demand-side increasing returns (DSIR) markets, where the value of each additional product to consumer increases with the number of items already in use by others (Katz/ Shapiro 1985; Saloner et al. 2001). Examples of such markets include markets for telephones, faxes and other means of communication that presuppose connectedness and compatibility. For example, owning a telephone if none of your friends or acquaintances owns one is useless, but getting one when there are others you can call is beneficial since you are joining an already existing group of users. In addition, each additionally produced (and purchased) device increases the value of owning the already existing ones. In other words, phone owners continue reaping benefits from owning their devices with each additional phone user added to the group. Once the number of users reaches a critical mass stage (Granovetter 1978), new members start joining in a snowballing fashion. The network starts growing on its own, attracting new members by virtue of its sheer size.

This logic is applicable to emerging credit card markets as well, except that there the value of owning a card does not increase directly with the number of those who already have cards, but indirectly: more cardholders means that more merchants would be willing to accept cards, and this, in turn, will attract more individuals to sign up to become cardholders. Credit card markets are therefore two-sided markets (Rochet/ Tirole 2004; Rysman 2006; Armstrong 2006): markets that through an intermediary (in this case, a bank that issues cards) connect two groups, merchants and consumers; each of the groups is sensitive to how well the intermediary performs in the other one.

Cardholders and merchants are said to be mutually complementary, as one group cannot function without the other, and the growth in each group makes joining the other one more attractive (Milgrom et al. 1991). The two groups have to be recruited simultaneously; reaching a critical mass stage by one group sends a positive feedback to the other group and encourages more of them to join. Therefore, no cardholders – no merchants, and vice versa. Unless the vicious circle is broken, the market simply would not take off. Once a positive feedback is received, numbers of cardholders and merchants start growing in a complementary fashion: "As more consumers have a particular card brand and more merchants take that card brand, it becomes harder and harder for other merchants *not* to take that card brand" (Evans/Schmalensee 1999:151, emphasis is mine).

Quite paradoxically, the two problems, complementarity and uncertainty, seem to require contradictory solutions (Table 1). The problem of uncertainty requires careful pre-screening, and it can be time-consuming (if pre-screening uses experts to conduct in-depth analyses of prospective borrowers' cases); thus, it only allows for a slower market expansion. In addition, pre-screening narrows down the pool of potential applicants by weeding out "poor risks," and yeilding a smaller number of "suitable" cardholders. Slower market expansion and smaller pool aggravate the problem of complementarity. In other words, careful screening prevents card issuers from quickly reaching critical mass of cardholders necessary for getting merchants' interested, and therefore, from achieving positive feedback and ultimate market success. Moreover, in emerging markets, which usually lack necessary formal institutions such as credit bureaus, lenders have to resort to social networks to pre-screen and monitor prospective borrowers. This sets natural limitations on the size of the issuers' clientele and further prevents lenders from solving the problem of complementarity. If one *is* too careful in screening, the market might never develop. On the other hand, if one is *not* too careful and issues cards quickly but indiscriminately in an attempt to solve complementarity, market expansion can bring ruin: card issuers might be faced with mounting defaults and fraud.

	Uncertainty	***Complementarity***
Solutions	Careful pre-screening	Quickly issuing cards *en masse* in order to attract merchants
Consequences	Smaller pool of potential customers, slower market expansion	Card issuing in the absence of pre-screening aggravates the problem of adverse selection, and can jeopardize future economic soundness of the market

Table 1. Contradictory solutions to uncertainty and complementarity problems in an emergent credit card market

Card issuers in emerging markets have to carefully balance between these two competing pressures – to jump-start the market and to control uncertainty. Of the two problems, complementarity is temporary. It is only important initially and becomes irrelevant once the card acceptance network is established and the demand for cards becomes self-generated. Card issuers always strive to issue more cards, but in established markets this becomes part of the usual market competition. Unlike the complementarity, the challenge of uncertainty is permanent. As much as it has to be solved by each new debutante on the card issuing scene, existing card issuers are also regularly revising their screening and monitoring approaches to react to market changes, to accommodate their new products or to appeal to new consumer groups.

Why Has Consumption been Downplayed in Economic Sociology Literature?

Recent surge of interest in the study of concrete markets among economic sociologists ranges from industrial production markets (White 1981; Burt 1992; Fligstein 2001; Podolny 2005), to biotechnology (Powell et al. 1996; Podolny 2005) to labor markets (Granovetter 1995[1974]; Fernandez et al. 2000; Yakubovich 2005), to financial exchange markets, such as securities and stock and bond markets (Baker 1981; Abolafia 1996; Zuckerman 1999; Knorr-Cetina/ Brugger 2002; Mackenzie/ Millo 2003; Podolny 2005), and even markets for art, photography, wine and book publishing (Powell 1985; Aspers 2001; Podolny 2005; Velthuis 2005).1 But hardly any attention has been paid to the problem of constructing consumer demand. In this sense, most economic sociologists are not much different from neoclassical economists who assume that firms and markets emerge in response to existing niches. For example, Swedberg (2005) in the recent edition of The Handbook of Economic Sociology discusses Harrison White's position on the social construction of markets: "If businessmen are correct in their calculations, they will be able to locate a niche in the market for their products, which their customers acknowledge by buying a certain volume at a certain price" (Swedberg 2005: 245; see also Zuckerman 1999 for a critique of a position that ignores consumer side). The irony of such a position is that the argument about social constitution of markets is made with an assumption of consumer demand existing objectively and independently, waiting to be tapped by an entrepreneur with a vision. White's own words establish the focus of his work even more squarely away from demand and consumption: "Markets are tangible cliques of producers watching each other. Pressure from the buyer side creates a mirror in which producers see themselves, not consumers" (1981: 543).

Competition is undoubtedly the essence of the market that distinguishes it from other ways of organizing economic activity. Nevertheless it is a mistake to think of markets exclusively through the prism of producers struggling for a bigger market share. While this project focuses mainly on the banks' vision of the market, its problems and ways to solve them, what I hope to demonstrate is that consumers' collective behavior decides the shape and the ultimate fate of the market, and that they should not be downplayed as mere objects of banks' competition.

Traditional emphasis on production "with no more than occasional gestures towards consumption" (Zelizer 2005: 332) reflects a deep-seated problem in contemporary sociology. Frenzen, Hirsch and Zerillo attribute it to the historic context in which both economics and sociology developed – a period "when the industrial production was still young and manufactured goods were still commodities for which consumer demand greatly exceeded the available supply," resulting in scarcity and allowing to take high consumer demand for granted (Frenzen et al. 1994: 403). But modern production capacities outstrip consumers' ability to consume, isolating the problem of demand and bringing it to the forefront.

Ezra Zuckerman (1999) raises the issue of consumer demand in his work on securities markets – mediated markets, where demand depends on financial analysts' perceptions of different products. They are the main shapers of demand even though it is mass consumers that eventually buy securities, and it is to these market critics that producers pay the most attention. Zuckerman's main question is how consumers evaluate alternative products on the market, and his answer is that they rely on critics, who legitimize them and put them in appropriate categories of already existing products.

While Zuckerman engages with a problem rarely addressed by economic sociologists, his work reflects another prevalent trend in the literature, namely the focus on the functioning of already existing markets, rather than on the process of emergence of entirely new markets. Even a couple of sociological studies with promising titles, like Harrison White's *Where Do Markets Come from?* (1981) or Mitchell Abolafia's *Making Markets* (2001) concentrate exclusively on what existing markets are rather than on how new markets are built. As a result, there is little opportunity to ask a question of how producers generate demand for entirely *new* products – those that cannot be easily fit into an existing category.

In established markets, the problem of consumer demand shifts to product differentiation. For instance, it is no longer necessary to build consumer demand for credit cards in the United States market. Strong consumer demand exists for this category of products. They have been long established as the instrument of everyday use, enabling such long-distance transactions as car rentals, hotel bookings and Internet purchases. Yet, different card issuers (banks or multinationals) are competing within the accepted category of cards, offering various perks in order to entice consumers to switch to their particular card brand or a specific card product.

It is in new emerging markets that the problem of building consumer demand can be particularly acute. Viviana Zelizer's work (1978) on the rise of life insurance in the 19th century America explicitly addresses the problem of initial consumer resistance to an emergent market. Potential consumers of life insurance considered it culturally unacceptable to put a price tag on human life. Life insurance policies challenged the prevailing distinction between sacred (life) and profane (monetary value), and exemplified the difficulty of building demand for a new product. What eventually made life insurance sell was the process of "sacralization" – "the transformation of the monetary evaluation of death into a [secular] ritual" (1978: 605). The notion of "good death" started to involve financial arrangements for family members left behind. Life insurance money was portrayed as a source of remembrance and a way to achieve immortality in the eyes of living relatives. This was a cultural solution to the problem of constituting demand. New cultural frames helped change initial negative perceptions of life insurance (see also Chan 2006 on the rise of life insurance in China).

In the case of the Russian credit card market, one sees similar obstacles and more. In addition to cultural resistance, such as distrust of banks, traditional reliance on savings and cash to pay for purchases, and informal no-interest borrowing from friends and family, there was also strategic resistance, namely the barrier of complementarity. Not only were prospective Russian consumers wary of or uncomfortable with non-cash payments or bank-procured credit, but they were also resistant because there were still too few merchants (or merchants of a wrong kind – large hotels and high-end boutiques) accepting cards. Merchants, in turn, were reluctant to sign up, waiting for consumers to obtain cards first.

How Networks Help Build Mass Markets

Historically, while social networks were the skeleton of local exchange, as mass national markets emerged, networks started to break down under the pressure of greater geographic, social and cultural distances between transaction parties. They were replaced by other forms of governance, such as formal institutions and professions that enabled transactions between strangers sharing little or nothing in terms of social circles or culture (Zucker 1986).

My argument is that in Russia networks help construct mass markets thanks to their unique ability to help sellers both access and assess their prospective consumers. The reason that traditional approaches to networks are unable to account for the presence of networks in mass markets is that the analysis is always restricted to relations between nodes of the same level – individuals or organizations (either informal interpersonal relations between producers/ entrepreneurs or power/ property relations between firms, on the latter point see Stark 1996), never combining the two. Moreover, interorganizational ties are often reduced to interpersonal ones (through interlocking directorates, for instance). When some scholars allow for the variability in the type of the tie (Granovetter 1985; Powel et al. 1996; Uzzi 1996), relations are still between nodes of the same level. Yet, such uni-level networks can only capture a partial snapshot of a mass market, which is by definition a market where large firms (organizations) produce goods or services for mass consumption (therefore, for consumption by a large number of individual actors). For instance, an analysis of interorganizational ties between banks and employing organizations does not capture the role that ties between organizations and their employees could play in facilitating card dissemination.

It is precisely when we conceive of networks as combining nodes of two different levels – both organizations and persons, that they can be viewed as contributing to the creation of a mass consumer market. Organizations usually have relationships with large groups of individuals, whether their employees ones or customers ones. If producers can persuade organizations to provide them with access to these individuals, they would instantly reach scores of potential buyers.

Two particular strategies exemplify Russian banks' use of networks in building mass consumer finance markets: salary projects and consumer lending in retail locations. Salary projects are agreements between banks and large or medium-size enterprises to have all their employees' salaries directly deposited to banks, while employees are issued bank debit cards (usually with an overdraft feature). Salary projects are usually administered to the bank's current corporate customers, but can also be used as a bait to attract new corporate customers. Such salary direct deposit agreements were the principal way of card dissemination in Russia in the 1990s, allowing banks to quickly increase the number of cardholders (Guseva 2005).2 However, despite the impressive rate of growth in the number of cards, few cardholders used them for non-cash transactions. The majority made a stop at the ATM first and then headed to stores armed with cash. This deprived banks of merchant discount3 and sabotaged their attempts to solve the complementarity problem (since merchants were not part of the picture).

Thus, even if successful in disseminating cards to thousands of individuals banks could still fail in solving the complementarity problem. Even with cards in their wallets consumers still preferred cash over plastic, and saving over borrowing. Consumer culture indispensable for the success of credit card markets includes willingness to go into debt, willingness to borrow from banks, and readiness to pay interest. If by the time that credit cards appeared on the American stage (in the late 1950s, [Nocera 1994]), American consumers had already developed these dispositions (Nugent 1939; Mandel 1990; Calder 1999), among the Russians, traditional preference for cash and resistance to borrowing at an interest prevailed. Mass distribution of cards in the 1990s, even if looking impressive in VISA reports, was nevertheless failing to prompt a revolution in buying. Arming individuals with cards was not enough to make them spend.

Starting in 2001-2003, Russian banks developed an alternative strategy of mass card distribution – that is of offering credit cards to short-on-cash consumers in large consumer electronics or furniture chain stores or shopping malls. The credit card market benefited from the recent spectacular growth in household lending in Russia, which was a result of the overall economic growth, rising living standards, increasing disposable income, and the expansion of the retail industry.

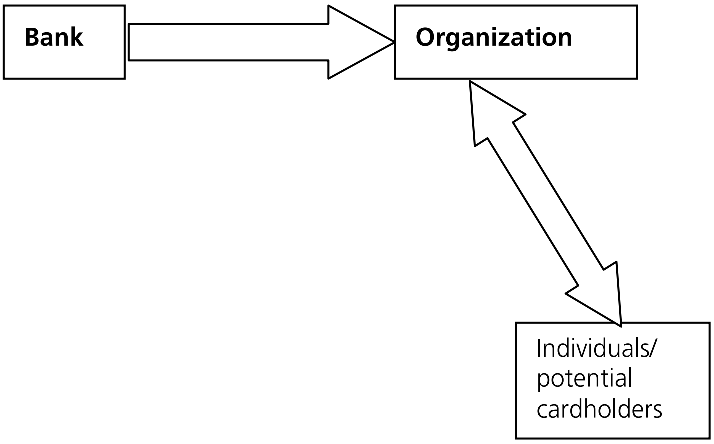
Unlike salary projects, lending in retail locations brought three parties essential to a credit card market – banks, cardholders and merchants, together in the same place, making individuals interested in cards and available for banks, and making merchants central to consumers' decisions to obtain cards and to use them to shop.

Capitalizing on retailers' ability to attract customers in their shops and in malls utilizes what I call a *locational* benefit of bi-level networks: in order to reach mass customers a company needs to identify a way that they can be targeted as a group. While retailers only assist banks in providing access to prospective cardholders without helping to pre-screen them, in the case of card-issuing through employing organizations (salary projects), employers do not only provide access to prospective customers, but also help banks in managing the problem of uncertainty. In this arrangement, employing organizations amplify the usual ability of social networks to reduce uncertainty by channeling information, and producing greater transparency and trust. Organizational structure anchors individuals firmly in intra-organizational relations, both vertical and horizontal, making it easier to monitor them. I call this a *relational* benefit of bi-level networks.

Only when networks are viewed as tying together both organizations and persons, can we start appreciating how existing roles and relations are recalibrated to assist current needs. For example, an existing relationship between "a corporate bank" and "a firm, which is this bank's corporate client" can be transformed into a relationship between "a retail bank" and "an employing organization that makes its employees available to the bank as potential customers." Likewise, in situations when holders of salary cards could use them in factory-owned stores and eateries, an employer-employee tie is reformulated as tie between a retailer and consumers.4

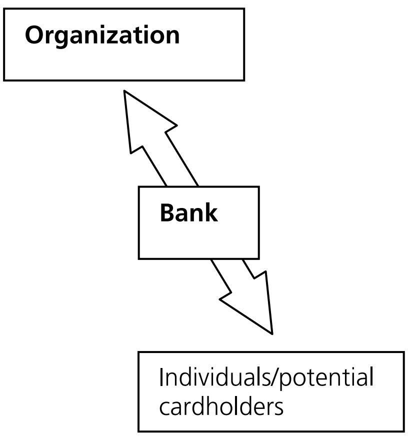
An important question to address is how banks manage to make organizations interested in providing them with access to individuals. Arrangements with retailers can range from zero (banks open their booths in large malls without a specific agreement with any of the stores) to bilateral agreements to issue co-branded cards (usually with large stores, such as IKEA), which also offer various loyalty perks (discounts, promotions, etc.). Salary projects presuppose well-specified agreements signed by both the bank and the employing organization. While in both cases banks start with using organizations as a middleman that provides access or "introduces" them to their potential cardholders, banks end up successfully reformulating their own role as middlemen between companies and individuals (Figures 1 and 2).

Figure 1. Bank Approaches an Organization (Phase 1).



In the case of salary projects, banks offer their services as cashiers regulating wage payments between companies and their workers, and freeing employers from transporting, securing and dispensing cash. In the case of consumer credit projects, banks enable purchases that otherwise would not happen since consumers lack cash, freeing merchants from the need to finance purchases themselves. In contrast to churches or professional societies that also have access to large groups of individuals and could put banks in contact with their members, retailers need banks as much as banks need retailers. Thus, in both cases of consumer credit and salary projects, the arrangements between banks and organizations are framed as mutually beneficial: banks get access to prospective customers, and companies are rid from providing services for which they are not suited professionally.

Figure 2: Bank Positions itself as a Middleman (Phase 2).



These strategies are not limited to emerging markets in transitional contexts. There are plenty of examples of sellers turning to organizations to both reduce uncertainty and facilitate access to mass consumers in modern capitalist societies such as the US. This includes marketing cards on university campuses or next to airline terminals (especially those with mileage programs), relying on lists provided by credit bureaus to send out pre-approved applications,5 and selling group insurance policies through employing organizations. In the latter example, employers do not only help insurance companies to access prospective consumers, but also reduce the problem of adverse selection and help them turn uncertainty into quantifiable risk. This suggests that new markets can emerge by capitalizing on already existing markets. Specifically, Russian credit card market has been relying on labor and retail markets.

The idea of analytically tying both organizations and individuals in the same network is borrowed from organizational literature, which treats both of them as actors (Scott et al. 2001), however, downplaying relationships between them. I focus on ties between them because they are sought after by banks and other companies struggling to create new markets. These ties are not necessarily meaningful social relationships like the ones linking friends or colleagues. Organizations, even if they are our employers, usually do not know us intimately, but they possess some information about us, and have a certain degree of control over us. At the very least, we need them to provide services or goods. We come to organizations to fulfill these needs, and this is why our ties to organizations become such valuable assets for market makers that strive to reach their prospective customers. Access that organizations provide can involve different degrees of coercion. For example, applying for a credit card in a store where one just saw an item that is too expensive to be paid for in cash, is entirely voluntary. Employees, on the other hand, have no choice if their administration has signed an agreement with the bank to carry out a salary project at the enterprise.

Conclusion

The task of explaining how the Russian credit card market is being constructed would not be adequately done without a reference to bi-level networks that combine both individuals and organizations. Such networks play a key role in helping build mass consumer markets because they help banks access and sometimes even assess their potential customers.

In the context of post-communist transition, bi-level networks offer an alternative mechanism of market-building, especially when "right" institutions that support mature markets in the West are not yet available. Rather than conjuring markets out of thin air in an orderly response to perceived opportunities as the neoliberal logic seems to be suggesting, Russian market makers create markets out of the existing fragments of social structure – networks and organizations which are recalibrated and fitted to new uses (Stark 1996; Sedaitis 1998; McDermott 2002).

Bi-level networks expand our understanding of the role of networks in markets, and highlight the need for economic sociology to pay greater attention to the matters of consumption.

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Endnotes

1 For an overview of approaches to markets in neighboring disciplines and current research on markets in economic sociology see Lie (1997), Swedberg (1994) and Swedberg (2005).

2 Prior to the rise of salary projects, salaries were paid in cash and few banks had large household customer base.

3 A percentage of sales merchants pay to banks for the privilege of accepting cards in their locations.

4 Incidentally, this fluidity of roles is one of the socialist legacies when employing organizations did not only provide workers with jobs, but also with recreation, deficit goods, healthcare and daycare, exemplified in particularly in the Chinese "iron rice bowl."

5 This suggests that besides their traditional function of reducing uncertainty (by assisting in screening, monitoring and sanctioning of borrowers), credit bureaus also help banks gain access to groups of borrowers.

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Capital and Community: Findings from the American Investment Craze of the 1990s

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Ten Years That Shook the Market

Much that can be said about the economic *Zeitgeist* of 1990s America can be encapsulated in the publication of three books in rapid succession between May and September 1999: *Dow 36,000*; *Dow 40,000*; and *Dow 100,000*. Issued by three different publishers, and written by three different sets of authors, each book vied to be the most optimistic about the upward trajectory of U.S. stocks. Though we might now wish to shelve these books in the science fiction section of the library, at the time their ideas were treated quite seriously and discussed earnestly in public news forums. However implausible it might seem in the morning-after light of the early 21st century, these books simply reflected the remarkable events occurring immediately before and after their publication.

Among the most notable legacies of this extraordinary period was the transformation of the majority of adults in the U.S. into investors. Investing was once the exclusive province of a tiny elite: in 1900, only one percent of Americans owned stocks, and that number barely changed for generations, reaching only four percent by 1952. But investing became a mass activity during the 1990s, so that by the end of the 20th century, an unprecedented 53 percent of Americans held investments in the stock market. Moreover, half of these new investors were women, and many others were people of color – two groups that were scarcely to be found anywhere near Wall Street until the past decade. A report by the United States Congress called it "an explosion in stock ownership."**1** The *New York Times* proclaimed a new era of "shareholder democracy"**2** and *Newsweek* called it "one of the great social movements of the 1990s."**3**

Who were these new investors, and what was the socioeconomic impact of their mass entry into the stock market? Though they were the object of much speculation and hyperbole, the rise of these "retail" investors, as they are known to finance professionals, was so swift that no one really knew. So I conducted a study to find out. My book, *Pop Finance: Investment Clubs and Stock Market Populism* (forthcoming from Princeton University Press), is the first – and, as far as I know, still the only – study to examine this "new investor class." The book is based on two years of multi-method research I conducted, starting with a year of participant observation and followed by a national survey. The initial research was conducted in 1998, near the height of the bull market; following the market's swift decline in a few years later, I returned to the investors I had worked with in my original participant observation study, and interviewed them about how their financial behavior and outlook had changed.

Despite the dramatic changes in the market since 1998, retail investors are still very much an important force in the U.S. stock market, and I believe they will continue to wield significant influence. That is because they are not in the market just to make a quick buck – although that is always a factor – but as a result of institutional imperatives that have transformed the provision of old age insurance from a collective responsibility into a problem that individuals must solve for themselves. As European readers may know, the U.S. government offers very little in the way of a social safety net for citizens, and what little we have is shrinking. This has created a colossal public policy problem: the public sector is withdrawing from what few pension obligations it once had at the very time that a large segment of the population is approaching retirement age.

This collision of demographic and institutional change has catalyzed an urgent need to generate retirement savings: for many people, the stock market seemed the only way to make enough money quickly to avoid the spectre of an impoverished old age. The view that mass investment in the stock market would solve the looming retirement crisis was popularized in the press and by the government itself, which underscored the point in 1997 with a massive cut in the capital gains tax: essentially privileging investment income over earned income from work. As more Americans were swayed by these incentives, more started investing, driving stock prices up, and making the profit opportunities even more attractive to other investors – creating, in essence, the kind of recursive, self-referential system typical of speculative manias.4

Investment Clubs and the New Investor Class

How did this new majority of retail investors gain entrée into the stock market in the first place? It is a non-trivial question, since until the 1990s, there was virtually no way to invest *without* the mediation of a stock broker: professionals who charged hefty commissions on each trade, and who would often simply refuse to provide services to anyone except the wealthy; most brokers regarded small investors (including women) as simply not worth their time. But even with the advent of discount brokerage, including online services like eTrade, there still remained formidable barriers to would-be retail investors: namely, the expense of the stocks themselves, and the complex, arcane language that had to be learned in order to begin investing.

This is how investment clubs – voluntary associations of 10 to 15 people who pool their money to invest in the stock market – came to serve as the main point of entry into the stock market for millions of Americans. The clubs allowed individuals to benefit from economies of scale in both financial and temporal terms: by contributing just $15 to $20 at each monthly meeting, each member could buy stocks with the other club members, something they could never afford as individuals; and during the two-hour meetings, during which members would present stock purchase or sale ideas to the club, everyone got some of the investment education they needed. Thus, by the late 1990s, investment clubs went from being an obscure hobbyist movement imported from Europe a century before into a mass socio-economic phenomenon that involved some 11 percent of U.S. investors – about 20 million people. 5

Despite the market downturn since the dot.com bubble burst in early 2000, these investment clubs and their members still wield significant economic power. The figures for one national investment club association tell the story: their thousands of member clubs (composed of half a million individual members) collectively own $125 billion worth of the U.S. stock market and invest an additional $190 million each month.6 Those figures are comparable in magnitude to the investments of CalPERS – the California Public Employees' Retirement System – which has $143 billion in assets under management and is the world's largest pension fund.7 Moreover, retail investors exert a large influence on the market relative to their numbers: while CalPERS represents over 1.2 million California public employees, there are just a few hundred thousand investment club members in the U.S. Though investment clubs do not act as a single unit, as CalPERS and other pension funds do, there is still a consistent pattern of stock ownership among the clubs. For example, the clubs belonging to one national association alone own $562 million worth of General Electric, $423 million worth of Intel, and $1.3 billion worth of the insurance company AFLAC – about 7 percent of shares outstanding.

Given the historical significance of investment clubs in facilitating the retail investor boom, as well as the economic influence these investors continue to wield through investment clubs, it becomes important for scholars to understand how these economic actors think about the market and how they choose to allocate their money. A major objective of my study was to document the real-world behavior of American investors and to offer an alternative to what might be called the "official" version of stock market dynamics presented by economics and finance, which marginalizes social influences on investor behavior under the rubric of "noise trading."8 Ethnographic research on the practices of investment professionals shows that social influences on investing are not limited to amateurs, but rather pervade the stock market: as one prominent economist put it, "apart from a few lonely Warren Buffetts, institutional investors exist in a community that is exceptionally closely knit by constant communication and mutual exposure."9

Of all the ways to approach this phenomenon, investment clubs provide a particularly appealing starting point, not only because of their economic significance but because they offer the opportunity for detailed observation of the social processes involved in investing. They allow the complex set of practices that is the stock market to be studied on a manageable scale.10 Second, investment club meetings make the decision processes of investors available for analysis. Among individual investors, decision-making can be very difficult to study because so much of the process is internal; little is accessible directly to researchers. In other words, while it is not difficult to find out what investors do, it can be difficult to discover *why*.

In contrast, investment clubs make these processes explicit and available for the researcher. That is because the group process requires members to debate their decisions and take a vote before acting; during the clubs' monthly meetings, members must articulate their reasons for wanting to buy or sell stocks. They have to debate the pros and cons explicitly. Thus, their decisions can be observed unfolding in "real time," rather than being reconstructed retrospectively, with all the potential biases that implies. Observation provides more accurate data through direct access to the process of investment decision-making in groups: a widespread, but under-researched phenomenon about which we need to learn much more.

Methodology

Since there was no prior research on investment clubs, I was unable to embark directly on a large-scale survey project. Instead, I began building knowledge of the groups through observation and interviews. The qualitative phase of the study involved participant observation of seven investment clubs in the San Francisco Bay Area over the course of a year. This portion of the project was guided by two goals: to develop theory and to generate questions for a survey to be mailed to investment clubs nationally. The survey, which gathered both club-level and individual-level information, was intended to create a broader picture of investment club performance, composition and practices, and to serve as a context and benchmark for the qualitative findings.

The sample I selected for participant observation was designed to provide insight into as broad a spectrum of investors as possible while remaining a manageable size for steady, long-term observation. Thus, the sample included clubs of varying gender composition: two all-female, two mixed and three all-male – a category I oversampled because of the small proportion they represent among investment clubs nationally. The sample also varied by age of club: one group was brand new, having formed just a month before I began observations, while another had been in business for more than 40 years. The members themselves were diverse in terms of race/ ethnicity, occupations and age: participants ranged from mid-20s to mid-80s. Finally, I sought variation in performance, including clubs that earned substantial profits on their investments and those that merely limped along, even during a rising market. The average investment club in the U.S. earns a rate of return of approximately 12.6 percent on their portfolios since inception; while this was somewhat above the historical average returns of the U.S. stock market over the past century, it was low for the late 1990s, when rates of return on the market overall often exceeded 30 percent.

Based on what I learned from attending the monthly meetings of these seven groups, I developed a mail survey that went out to 3,000 randomly-selected investment clubs across the U.S. Each club received a packet containing two anonymous survey instruments: one designed to glean group-level information, along with 15 copies of a survey designed to gather data from individual club members. The club presidents filled out a four-page survey consisting of 30 questions about club performance and structure. Individual survey participants also received a four-page survey, which included 31 multiple-choice and Likert-style questions about their demographic background and investing behavior, both within and outside of the club. Usable responses were returned by a total of 1279 clubs, a response rate of 43 percent. The survey also yielded individual level data from over 11,000 members within those clubs; the average rate of individual participation in the study was 70 percent (s.d.=.18).

The survey data painted a portrait of investment club members that closely resembled the averages for the U.S. population as a whole. The average individual survey respondent was between 45 and 50 years old, college educated, earned $52,000 per year (s.d.=$13,000), had 11 years of investing experience (s.d.=6.6), and had belonged to his or her club since its inception. At the group level of analysis, the average club responding to my survey had been in operation for 4.3 years (s.d.=6.4 years), owned a portfolio worth $43,000 (s.d.=$73,000) and had 15 members (s.d.=5). While it was not possible to compare the sample frame for this study with the entire population of investment clubs, analysis of archival data from the non-responding clubs indicated no significant difference in terms of composition, size, age or portfolio value between clubs that did or did not respond to the survey.

Major Findings

Using the theoretical framework I developed in the participant observation part of my study, I developed ideas to test and generalize with the survey data, which I analyzed using standard OLS regression techniques. Below, I have summarized some key findings based on both types of data. Since I can't be as complete as I'd like in this format, I hope that interested readers will contact me with their questions.

Investing as Shopping: the Consumer Orientation to the Stock Market

As part of the social studies of finance literature, my study takes the view that the proper study of markets is how actors assign value to things. Thus, one of the main topics of interest in my research was how investors decide what stocks are *worth* buying, and at what price. Though the questions are rational, the process of answering them is not, in that numerous social forces come into play – particularly social psychological factors like identity and impression management.

The evidence I gathered suggests that people buy stocks in much the same way they buy consumer products like jeans and cars: with an eye not only to the utilitarian properties of the purchase (e.g., something to wear, to drive, or to make money with), but also with consideration for how those purchases speak *for* them: what they say to the world about the kind of person the purchaser is. While it might seem as though a stock is far less observable and available for interpretation by one's peers than an item of clothing or a car, it turns out that investors discuss their portfolios frequently (not to say incessantly) within the social setting of their investment clubs as well as within their neighborhoods, families and workgroups. As a result, one social psychological study found, there is an extremely high correlation in investment choices within neighborhoods: individuals buy virtually the same stocks that their neighbors and coworkers, because they hear about those stocks at barbeques, PTA meetings and around the water cooler.11

In both the qualitative and quantitative portions of my study, I found that American investors seem to have taken to heart the advice of one of the best-known and best-selling investment books in the U.S., which advised would-be investors to "buy what you know."12 It turns out that what people believe they know best is themselves, and they buy stocks that are congruent with their identities (or aspirations) as men, women and moral people. The importance of congruence with notions of self is woven throughout my data on the processes investors use to make decisions among the thousands of stocks available to them.

In fact, I documented repeated instances in which investors rejected stocks because they, as one participant in an all-women's investment club put it, "couldn't identify with" or didn't wish to be associated with some firms. This dis-identification was sometimes based on corporate reputation, as in the case of the club that declined to invest in the building-supply firm Home Depot because of its reputation for discriminating against women employees. But more often, it was a matter of taste, or what Bourdieu would call "distinction," as in the case of the group that refused to buy stock in La-Z-Boy – a manufacturer of reclining chairs and sofas associated with middle-brow American décor – because, despite the firm's excellent economic prospects, it came with class-linked connotations that the investors thought would reflect poorly on them.

The process of impression management was also evident in the tension retail investors experienced around maintaining their social identities as "good people." For instance, a surprisingly large number of clubs chose names like "Investors for Christ," "L'Chaim Investors" or "Episcobucks," suggesting that the age-old conflict between ethics and virtue on the one hand, and money and profit on the other, is still highly salient to contemporary investors. I also saw investors repeatedly reject investments they agreed were likely to be very profitable because they considered the product itself (as opposed to the firm) dangerous and antisocial; for example, one very successful all-women's investment club, after a lengthy and positive financial analysis of Harley-Davidson, decided not to buy the stock because they came to the reluctant conclusion that, at heart, they believed motorcycles were dangerous and antisocial!

The identity issue, and the consumer approach to investing, went far beyond investment club members' attempts to make what they perceived as socially-responsible choices. I found that investors also thought about stocks in a *gendered* way, even going so far as to create a mental model of the stock market that parsed investments into "girl stocks" and "boy stocks" – much the way small children learning their gender roles sort occupations into jobs for girls (e.g., nurse) and jobs for boys (e.g., doctor).

The gender division of the stock market seemed to occur along lines that were first limned in Veblen's *Theory of the Leisure Class* over a century ago: consumption and production. In the qualitative portion of the study, I found that women believed themselves to be most knowledgeable about the consumer products sector of the economy, and thus the bulk of their purchase recommendations to their clubs were for consumer products stocks. Men, in contrast, recommended stocks to their clubs based on their professional expertise: for example, in one all-men's club I studied, the bus driver persuaded the club to buy oil company stocks, the doctor recommended pharmaceutical stocks, and the engineer recommended the stocks of engineering firms. Curiously, though most of the women in my study worked outside their homes, I never saw them use their professional experience as a source of investing ideas, as their male counterparts did. In contrast, I did see men explicitly discuss and reject investment in the consumer products section of the economy, usually based on a vaguely-articulated but evidently shared understanding that it was unseemly for men to invest in that area of the economy!

I was amazed to find these results substantiated by my quantitative data. In analyzing the detailed portfolio records obtained through the national survey, I found that the percentage of stocks investment clubs allocated to consumer products firms was directly proportional to the number of women in the club. Thus, all-men's clubs had the lowest proportion of their assets invested in consumer products stocks, while all-women's clubs held the largest proportion of their funds in consumer products stocks, and mixed clubs were in the middle, allocating investment dollars to consumer products stocks in direct proportion to the percentage of women members.

I dubbed this phenomenon "the logic of gender appropriateness," and argued that it – along with socially responsible investing – were the outcomes of the "new investor class" importing their worldview as consumers into the stock market. They were, literally, *retail investors*. Most importantly, their choices are redefining "shareholder value" with significant implications for the ways that publicly-traded firms operate.

The "Diversity Premium" in Portfolio Performance

This study was catalyzed by a puzzle: according to data collected by a national association of investment clubs, the stock portfolios of clubs composed of men and women together earned significantly higher rates of return than the portfolios of clubs composed of men only or women only. Analyzing all 12 years' worth of portfolio performance data that were available as of 1998, when I embarked on the study, I found that the annual rate of return on investment for mixed groups was higher than that of their single-sex counterparts.

Specifically, mixed groups earned about two percent more on their investments than single-sex groups. While two percent may not sound like much, the process of compounding results in large differences over time. Through compounding, investment clubs earn interest on their interest, as well as on the cash they contribute each month, so that a two percent premium can result in many thousands of dollars in additional profits. It was also surprising to note the absence of any statistically significant difference between the performance of all-male clubs and all-female clubs, suggesting that neither men nor women were better investors, but rather that gender diversity itself made a distinct contribution to group performance.

The findings were unexpected for two reasons. First, economic theory would suggest that the personal characteristics of investors (such as gender) should make no difference in the performance of their stocks. Second, sociological research has repeatedly shown that compositional diversity in task groups causes decreased performance more often than not. Yet the positive effects appeared robust in this data set, and I set out to uncover the origins of the "diversity premium."

Using both the qualitative and quantitative parts of my study, I found that the "diversity premium" had two sources. The first was the different orientations that men and women have to the stock market (sketched in the previous set of findings), which meant that mixed groups had larger and more diverse sources of investing information than single-sex groups. Second, social ties among members of single-sex groups were quite different than those in mixed groups, affecting the quality of their decision processes. Consistent with an extensive literature on group composition, all-men's and all-women's groups were overwhelmingly composed of social friends, while mixed groups were primarily composed of colleagues who knew each other through work and school – the institutions where men and women are most likely to cross paths and form ties. For the sake of their friendships, members of single-sex groups tended to "rubber stamp" each other's investment ideas, inhibiting candid and rigorous analysis of the investing ideas members proposed. In contrast, mixed groups generally developed out of settings like offices and classrooms, in which disagreement was tolerated, or even encouraged. As a result, mixed groups not only had norms of constructive debate, but had less to lose socially from such discussions than their same-sex counterparts; this produced more considered, and more profitable investment decisions. Thus, while few investment clubs got rich – most underperformed the market index (the S&P 500) by about 20 percent, like 75 percent of professional investment managers[13] – groups composed of men and women together consistently earned higher returns on their investments.

Investment Clubs as Micro-Finance for the Developed World

Investment clubs as an organizational form bear a striking resemblance to another mode of economic self-help: micro-finance groups, such as rotating credit associations (ROSCAs). Both investment clubs and ROSCAs are voluntary associations in which members make monthly cash contributions to a collective enterprise designed to build their economic independence. Such organizations have a significant economic impact in developing countries; for instance, a number of micro-finance associations have gone well beyond lending money, extending into investment in commodities such as steel roofing material or even currency equivalents. Some rotating credit associations in Africa are reported to hold assets in excess of U.S. $1 million, and many have developed elaborate governance structures.**14**

To find essentially the same techniques in use by middle-class citizens of one of the world's most economically-developed nations is a startling irony produced by a generation-long unraveling of institutions designed to provide collective economic goods. Like micro-finance organizations in developing countries, investment clubs in the United States address needs that are not met by the state or financial institutions. But while micro-credit associations primarily serve the poor, the techniques of "frontier capitalism" are being used by Americans who are far better off economically, but who have real concerns about sinking into poverty through holes in the social safety net. With 80 percent of members saying that their primary investing objective is to save enough to support themselves after 65, the investment club phenomenon can be read as an indicator of the degree to which stratification by wealth has shredded our social safety net.**15**

Social Capital and Civil Society

As voluntary, communal undertakings involving millions of people, investment clubs are a significant part of the associational life of the United States. They may also counter some of the dangers Putnam warns about in his portrait of declining civic life in America. Civil society thrives by bridging demographic and other boundaries, and investment clubs certainly provide the resources that to Putnam define civic engagement: "trust, norms and networks that can improve the efficiency of society by facilitating coordinated action."**16**

In addition, as Habermas argues in his theory of "communicative action," such voluntary associations help members become "more competent members of modern societies" by teaching them to engage in constructive argumentation. Characteristics of such groups include:

- Decision processes in which conflicts are resolved solely by the "force of the better argument"

- Cooperation in defining and achieving shared goals

- An equal voice in the process for all group members, including the ability to introduce proposals or call others' proposals into question

- The absence of threats to free and equal expression of ideas**17**

The case of investment clubs very closely approximates Habermas' vision of an "ideal speech situation." Learning to be an investor *through the vehicle of investment clubs*, as opposed to outside of a group context, has the secondary consequence of teaching the "communicative ethics" and discursive rules on which Habermas argues civil societies are built. Moreover, investment clubs provide a financial incentive for this behavior: the "diversity premium," which rewards those who engage in the common task across demographic boundaries. In this sense, there is reason for optimism about the flourishing of investment clubs, and their potential to repair some of the damage done to civil society in the U.S. in recent years.

Future Directions

To some, the technological advances that have permitted stock exchanges to operate without human traders, and individuals to trade without brokers, might make face-to-face groups like investment clubs seem like quaint anachronisms, irrelevant both for practice and for scholarly research. However, there are several reasons to think otherwise. In practical terms, the most important financial decisions in the world are made, and will continue to be made, in small group settings. For example, many of the most important decisions affecting the U.S. economy are made in small groups such as the Federal Open Markets Committee – a group of bankers who set interest rates and fiscal policy – as well as the numerous investment committees that decide how to spend the money of America's corporations and non-profits. Investment clubs are worthy of study in their own right, but they are also valuable to investigate as instantiations of an important socio-economic practice which has received very little attention from social scientists.

Indeed, Castells argues for the *increasing* value of face-to-face groups as machine-mediated interactions become more prevalent: "As more information flows through networked connectivity, the more important become the kinds of interactions grounded in a physical locale." In other words, the increasing ability to conduct transactions in the absence of physical contact not only does *not* threaten obsolescence for face-to-face groups like investment clubs but rather *enhances* their socio-economic value – a phenomenon known as "Castells' paradox."**18** Thus, in addition to their empirical significance as part of the economic and cultural history of capitalism in the U.S., investment clubs are poised to grow in both scope and influence for scholars, providing insights on such issues as: how value is socially constructed, who is empowered to participate in this social construction, and how micro-social factors aggregate to the level of macro-social institutions.

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In Trusts We Trust: Pension Funds Between Social Protection and Financial Speculation

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Recent reforms of European pension schemes have largely taken the American system as a reference. The principle of partial financing by private pension funds came to be privileged during the stock market's euphoric phase in the 1990s. Since the plunge of the market in 2001, however, the suitability of that model in Europe has not really been called into question, in spite of a succession of social and economic letdowns in the United States. The remarks which follow are aimed at understanding the origins of such a persistent belief in the virtues of the pension funds. The analysis brings out the role played by their legal structure, the trust, in the legitimisation of the 'pension industry'.1

The Key Element of Legitimisation: The Trust

The thesis developed here is that the unwavering support for the pension funds is based on a forceful but largely unconscious belief, according to which these funds would be capable of encompassing and reconciling two antagonistic logics, that of social protection and that of financial speculation. It is easy to understand the political interest of such a belief, which would make pension funds one of the solutions to the contradictions of European integration, acting as the main players in economic growth based on the financial market, characteristic of US finance-led capitalism, and, at the same time, potential candidates for the creation of a European social model more in keeping with the aspirations of the Social Democratic tradition.

The pension funds come under social protection to the extent that they are intended to supplement employee pension schemes. They are also essential participants on the financial markets and are permeated by the financial logic. But these two logics are contradictory in terms of ends and means alike. Social protection was developed in the 19th century to offer wage-earners security in face of the economic uncertainties proper to their situation. It is aimed at isolating them from economic fluctuations by creating social rights, which are different from property rights (Castel 1995). Finance, on the contrary, is party to economic fluctuations: its objective is systematic risk-taking through wagers on the future which are largely internal to the financial community.2 It functions on the basis of the circulation of property rights.

The pension funds would supposedly achieve a synthesis of these opposites: their administrators lay claim to long-term management adapted to the purpose of retirement funding. Their discourse gives a central role to the presumed virtues of the fiduciary responsibility which they are required to assume, and the trust's investment rules.

In fact, analysis shows that the trust is not limited to a rhetorical stand but, in accordance with the requirements of justification (Boltanski/ Thévenot 2006), actually contributes to organising the 'pension industry' sector. Distinct from contract and corporation alike, it initially depended on a particular legal system, equity, which is different from common law. Over time, case law engendered its own corpus of rules and constituted a veritable model of financial behaviour which is imposed on all the actors in the investment chain.3 It impregnated the workings of the financial world, which has made considerable use of it. And reciprocally, it has become the receptacle for the transformations of finance. In this sense, contemporary finance is 'determined' by the trust's legal categories.

The pension funds have inherited a certain form of economic organisation and behavioural guarantees from the trust. The underlying message conveyed by their promoters is that, because the trust, in its generic, ancestral form, was intended to ensure the management of the wealth of a minor placed under supervision, it is capable today, in its financial form, of efficiently protecting the group of uninformed savers constituted by employees. The legitimisation of the pension funds hinges on finance's appropriation of this protective heritage.

We shall thus examine the nature of the protection offered by the trust. Adopting an analytical approach, we shall first identify its constituent principles and their legal interpretation and then measure their impact on financial behaviours.**4**

The Nature of Protection in the Trust

The trust is protective first of all in the sense that it is a mechanism of supervision. It began as a medieval arrangement which permitted the knight setting out on a crusade to place his fief in the hands of a peer, who was then bound to look after the family's upkeep. It gradually became the instrument of English law which organises the transmission of inheritance within wealthy families and most recently, has been adopted by employers to structure pension funds. Whatever the kind of situation involved, the trust always reveals the same need: transmitting wealth to legatees considered incapable of managing it themselves. It meets this need through the introduction of a third party, the trustee, who is responsible for administering the holdings for the beneficiary. But this mechanism is ambivalent. On the one hand, it is eminently protective since it protects the beneficiaries, even against themselves. But on the other hand, it is a source of danger because it grants considerable powers to the trustee, notably that of disposing of the property.

When the trust is created, there is a transfer of the ownership of the goods towards the trustee, who then has a legal right over them. This is the major difference from the French legal system, which also organises management for third parties, but without the transfer of property. The trustee's appropriation permits a very broad delegation of management. The beneficiaries' subjection is total: they must rely on the trustees and generally have neither the power to dismiss them nor the means to monitor them or influence their decisions.

This asymmetry of power has been a source of major conflicts. At the outset, the Church's social power permitted disputes to be settled. In the 14th century, the English sovereign created a specific equity court, which proposed remedies absent from common law in cases where moral doctrine required it, essentially when what was involved was forcing the strong party (the trustee) to honour commitments with regard to the weak one (the beneficiary who was a minor). While common law arbitrated between parties of the same social rank who were equally capable of asserting their rights, equity took into account the weakness of one of them. It dispensed justice in the name of a higher principle, justness, with the sovereign held to be its legitimate bearer. It was thus opposed to common law according to the Aristotelian distinction between universal justice of a divine or political nature and individual justice (Duggan 1998).

The protective dimension of the trust is thus guaranteed by this legal exteriority which superimposes its own supervision over that of the trustee and acts in the name of moral doctrine and later, public order. This political origin reemerges in the United States with the 1974 Employment Retirement Income Security Act (ERISA) on the pension funds. This federal intervention in the form of a statute, atypical in a country of common law which generally prefers an elaboration of standards through case law, reaffirmed that the protection of rights to a pension scheme in the pension funds depends on the political order as well as the market order. The origin of the trust thus demonstrates that it is a private, tutelary mechanism regulated by legal intervention and political logic, which, from an analytical, historical standpoint,**5** makes it a valid institutional candidate for organising a form of social protection.

The Metamorphoses of the Investment Standard

The specific protection provided by the trust may also be measured in terms of the way the holdings are managed. History shows the extent to which the investment standard has changed in function of the social uses of the trust and the markets on which the assets are invested.

Given that the main objective is to avoid the alienation of the holdings by a disloyal trustee, the earliest investment rules were aimed at limiting transfers. The earmarking of holdings placed in trust was thus intended to inform any buyer of their fiduciary value, in order to make that person assume the fiduciary responsibility (Bogert 1987). The tracing procedure permitted the successive exchanges and transformations of the holdings to be re-established so that these could be restored to the beneficiary in case of abusive transfer. Since these rules reduced the speed of the circulation of the assets and thus their liquidity, they limited their market interest, and many financial intermediaries refused to get involved in holding such assets. By restricting liquidity, these original provisions did not encourage speculation, but they created a separate market. The financial players thus sought to get around them and in the United States, they were gradually abandoned in the early 20th century.

The second objective of the trust is to channel the trustee towards a kind of management which is in keeping with the transmission of holdings. Consequently, trustees are subject to a duty of prudence which should guide their investment choices. As defined by the courts in the 19th century, prudence of investment consisted of safeguarding the capital and seeking regular income. In addition, some states restricted the spectrum of authorised securities to government loans and mortgages, through legislation or regulations. They were thus responding to the concern for protecting beneficiaries from speculators as well as that for guaranteeing their own financing in the process. This policy was passed on by the courts, which explicitly prohibited speculation, although they had a hard time defining exactly what that entailed and limited themselves to excluding certain kinds of securities from the trusts. This conservative interpretation of prudence was maintained by the trust code, known as the Restatement of Trusts, until 1992 (Halbach 1992). A conceptual breakthrough was marked, however, with the 1974 ERISA, which privileges the concepts of diversification and portfolio risk borrowed from the modern portfolio theory. Developed by the academic community and promoted by the Securities and Exchange Commission (SEC) and the Department of Labour (DOL, responsible for enforcing ERISA), this theory slowly made its way among financiers during the 1970s (Bernstein 1995).

Its watchword, portfolio diversification extended to the entire constellation of disposable assets, opened the pension funds up to financial innovations. It took the opposite path from that of trust law, which, on the contrary, encouraged the individualised selection of investments on the basis of their substance (Langbein 1996). But the courts were slow in adopting this new vision of investment (Gordon 1987). Thus, until the 1980s, the standard of prudence in use was hardly favourable to financial innovations and constituted an obstacle to the forms of speculation derived from them.

Despite its total opposition to the substantive prudence of the Restatement of Trust, the modern portfolio theory was able to draw on another tradition of interpretation based on the Prudent Man standard laid down by the Massachusetts Court decision in Harvard College v. Amory (1830). This decision was pronounced in the context of the emerging industry of Boston professional trustees who were administering the financial assets portfolios of wealthy East Coast foundations and industrial dynasties (Friedman 1985). Capable of assuming greater risks than the other trustees, they developed specific knowledge which could not be recognised by the substantive standard in force (Langbein 1995). The prudent man rule met this need by defining the quality of an investment in a procedural rather than a substantive way, relative to the behaviour of a prudent man handling his own affairs. It thus added to the existing substantive standard (no speculation, permanent availability of funds) a procedural standard aimed at describing the "way" of handling.

The prudent man rule is a means of defining fiduciary responsibility in a procedural way, i.e., by insisting on the compliance of the decision-making process more than on the result obtained. However, the nature of this fictitious being created by the courts still limited his decision-making to a moral universe. In fact, the prudent man is a being attached to a community and he acts in accordance with the latter's values. This rule thus permits the referent of the investment decision to be rooted in a typical behaviour, the logic of which is financial but which is also a socially accepted and morally just behaviour.

The community of trustees came to replace the political and legal authorities in the regulation of trust investments. But it still did not permit a diversity of behaviours. By defining the good investment standard for all trustees, it tended to make their behaviours converge. It was thus the source of the mimetic behaviours which were to be identified much later among the trustees. Today, such mimicking is considered a source of speculation. For a long time, however, the prudent man rule avoided excessive risk-taking to the extent that it favoured the owner's 'reasonable' behaviour.

Finance's Take-over within the Trust

The 1974 ERISA marked a turning point insofar as it replaced the figure of the prudent man by that of the prudent expert. The distinction is essential: the prudent expert is a professional, not a good father. Concretely, this new legal being was constituted at the time of the transformation of the money-management industry in the late 1960s. The widespread break-up of financial institutions thus went hand in hand with the increased delegation of investment to money management firms.6 The pension funds were part of this development. To organise this delegation, investment management consulting firms offered to assist the pension funds in selecting their investment managers. A community of professionals thus emerged and became aware of its collective identity under the term "money-management community".7 And in fact, what this community proposed was consistent with the earlier procedural framework of trust law which required a community of reference in order to be able to judge the trustees' practices. Finance thus became the new community of reference, a legitimate source for setting out the 'good' practices.

This transfer of power to the investment managers was politically desirable for the United States government, which saw it as a means of protecting employees, the beneficiaries of the pension funds, against the arbitrariness of the employer-trustee. It was also a means of developing the autonomy of the financial industry. The 1974 ERISA thus accomplished what was then the necessary revision of the trust's legal categories. Three definitions were essential for prying beneficiaries loose from the supervision of the employer-trustee and attaching them to the financial intermediaries: the beneficiary's interest, the attribution of responsibilities and the prudence of investment standard.

The exclusive benefit rule defined the participant's interest in the pension fund on the model of a shareholder's strictly financial interest. This interest is doubly isolated: on the one hand, from those of the other parties, be they employer, trade union or trustee, and on the other, from the employees' interests other than that of seeking the optimal financial return.

Before this rule, the trust's investment decision-making was still situated in a legal context where several levels of arguments could be invoked.8 The courts accepted a holistic conception of investment within which obtaining a short-term financial return was not the trustees' sole preoccupation. The definition of the beneficiaries' interest could encompass their status as wage-earners and citizens. The management policy for the funds could be oriented by social considerations such as the granting of low-interest loans to employees, the funding of social housing, or economic considerations such as transactions aimed at developing the local economy or ensuring an outlet downstream for the firm concerned. These transactions could even be made at the price of a lower return than that of the market. These different uses of the assets held in the pension funds were economic but were not entirely controlled by the financial markets.

In the name of the protection of the beneficiaries and against the vicissitudes of such management, ERISA limited the beneficiary's interest to the financial return procured by the financial market (Fischel/ Langbein 1988). This meant that there was no other possible place for the investment of the pension funds' assets because the return on the investment had to be equal to that of a comparable investment, i.e., with the same risk, available on the market at the time of the investment.9 The return, which was initially only the result of various investment techniques, thus became a goal to be attained. With the privileging of this criterion, the decision-making process for investment was in some ways reversed: the return became a pure category applied to all the pension funds.

This normative vision found a way of imposing itself with the wave of hostile takeover bids in the 1980s. It allowed the sanctioning of employer practices which consisted of using the assets held in the funds to counter the takeover bids faced by American firms. The employees got something out of it because the failure of a hostile bid often meant that their jobs were saved (Roe 1994). In the name of ERISA, however, the DOL prosecuted the players using this strategy.

The second legal transformation consisted of authorising and encouraging the delegation of the investment function to investment managers. This delegation imposed a new definition of fiduciary responsibility. Traditionally, the trustee's responsibility was far-reaching: it bore on all the tasks carried out, and in case of disputes, its assessment was left up to the courts. ERISA broke this overall responsibility into separate ones transmitted to the proxies. It thus increased the number of potential trustees but limited their responsibility to the strict function assumed in the name of the delegation. The result was a functional clarification which met the criticism levelled at traditional responsibility as a "catch-all". But the network organised by the functional division of responsibility sometimes left holes. Thus, a whole group of players escaped an attribution of responsibility and this situation could lead to legal interpretations offering less protection to the beneficiaries than the provisions of trust law prior to ERISA.

The third modification bears on the definition of the standard of prudence. The text of the law, and the DOL's subsequent interpretations, actively introduced the modern portfolio theory, in spite of the resistance of the main players, employers, financiers and judges (Longstreth 1986; Gordon 1987). Concretely, this conceptual displacement permitted the justification of investments previously prohibited because they were judged too risky: junk bonds, stripped bonds, foreign stocks, derivatives and so on. It thus constituted a factor of increased risk-taking. But at the same time, it justified the spread of a second style of investment management, passive portfolio management. This approach is aimed at replicating the performance of a financial index and for the trustees, constitutes a good placement: obtaining a return in line with that of the market confirms that they have acted as "prudent men", in accordance with their fiduciary duties. Thus, the new concept of prudence justified two management behaviours at the same time: so-called active management can legitimately undertake investments riskier than those previously permitted, while passive portfolio management, on the contrary, reduces the risk on the portfolio return. Today, trustees use a mix of these two management styles.

A System of Justification, "Procedural Delegation"

The law has thus reconfigured its conception of the protection of the beneficiary with the arrival of investment managers in the pension funds. The transformation set off by ERISA is system-wide: it does not just do away with the prohibitions established by a few specific rules, which prevented a financial logic from dominating investment decisions. Rather, it directly establishes this logic by providing a legal rationalisation for the pension industry's system of social organisation. And it contributes to that system's legitimacy by making it consistent with the bases of the trust.

Given the metamorphoses which ERISA has imposed on the rules of trust law, we might well ask ourselves what actually remains of the trust's essence. In our view, its heritage lies in the fact that the present organisation of the pension industry relies on a principle which is at the basis of trust regulation: the obligation for the strong parties (trustees) to justify themselves with regard to the weak ones (beneficiaries) under the control of the judge. This requirement of justification was already expressed in the 1830 procedural definition of prudence of investment. It re-emerges today, among investment managers and trustees alike, in the form of obligations to document the decisions made, to have an investment process which can be explained to a third party. Accountability has become the watchword with regard to the results obtained as well as the procedures used.

A disclosure concept already existed in trust law and it was updated by ERISA in order to monitor and co-ordinate the delegation chain by requiring each link to provide information about its procedures.**10** But rather than adopting the traditional obligation which encouraged players to disclose any anomaly detected, the law limits disclosure to those anomalies stemming from the task accepted. No one is encouraged to reveal problems concerning another part of the delegation chain. Our analysis of ERISA case law from 1980 to 2000 shows that the detection of a substantive anomaly, even if it seemed disturbing in the eyes of the person discovering it, did not in itself constitute a warning sign except to prejudice the procedures leading to it (Montagne 2006). ERISA has thus helped to establish a system of organisation which I would term "procedural delegation". This consists of extensive delegation to investment managers, whom the trustees oversee by verifying the means implemented, without imposing a performance bond but by multiplying the number of providers placed in competition.

Such regulation based on the compliance of the procedures reflects a metamorphosis of the trust's protective function. The traceability of the exchanges, which used to prevent management abuses by earmarking assets, has been replaced by the monitoring of individual behaviour. Justification through procedures is an organisational descendent of the old rules of protection which, although they have been changed or have disappeared, remain active by modelling economic organisation. The players have lost sight of the legal origin of their behaviour. Thus the sector-based organisation in a form of "procedural delegation" constitutes a kind of residue of trust law on finance.**11**

The Real Nature of "Fiduciary Capitalism"

What are the results of this legal and socio-economic transformation? The principle of management under trusteeship has clearly been revised by ERISA with the aim of increasing the protection of pension-fund beneficiaries through the professionalisation of financial management. But by imposing the condition of due care rather than a performance bond, the law pushes the trust's "mission impossible" to the limit: ensuring the protection of the weak by requiring the strong to justify themselves. The display of procedures thus serves as the means of monitoring the powerful, who themselves remain individually subject to a higher power, the financial community. But the expected protection, a predefined retirement pension, is no longer ensured. The whole of the delegation system offers no guarantee: it does not ensure financial performance but simply provides a guarantee of compliance with commonly accepted procedures. This limitation of responsibility, characteristic of "procedural delegation", is a recurring component of the functioning of finance, which is based on intermediaries who provide "non-binding advice" and whose fiduciary responsibility has been attenuated.12

Ultimately, the legal transformation of the trust contributes to the legitimisation of finance. On the one hand, it makes employees' financial risk-taking acceptable by redefining fiduciary protection.13 On the other, it reinforces the position of the financial intermediaries: the blocking of employee savings in the trust gives them control over liquidity on the financial markets without any legal constraints to achieve a substantive performance. Fiduciary capitalism does not mark the advent of a new compromise between wage-earners and capital but rather, a renewed form of the seizure of fiduciary power by institutional investors and a new stage in the history of the expansion of finance.

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Endnotes

1 This article has been drawn from a more extensive treatment of the subject in Les fonds de pension entre protection sociale et spéculation financière (Odile Jacob, 2006). Translation: Miriam Rosen.

2 This vision of finance is the one developed by André Orléan in the tradition of Keynes and Kaldor. It closely links liquidity and speculation. Indeed, the main aim of the financial market is liquidity and the mechanisms sustaining it contribute to an overall coherence described as the "financial logic". But considering the firm as a liquid asset means giving it a value in view of resale, and any operation motivated by the anticipation of an imminent price fluctuation is considered to be speculative.

3 Not only are the pension funds organised in trusts but also part of the mutual funds, according to a 1996 survey carried out by the Investment Company Institute (ICI 1996).

4 In the remarks which follow, I am adopting a conception of the relations between law and economics derived from the institutionalist tradition initiated by Commons, the economic sociology of Fligstein and the Regulation Theory (Boyer 2007 forthcoming).

5 The double nature of social protection, economic and political, is theorized by the structuralist approach of B. Théret (1996:451-459).

6 For an account of how the sector was set up, see Clowes (2000). The author was the editor-in-chief of Pension & Investments.

7 The founding of the magazine Institutional Investors in 1967 with the aim of informing institutional investing players is a sign of the recognition of this sector as such. The appearance of investment management consulting firms, performance measurement services and investment counselling departments also helped to define the sector's boundaries.

8 A plurality of worlds of justification as described by (Boltanski/ Thévenot 2006).

9 According to the DOL's 1994 provisions.

10 Cf. the duty to alert in (Zanglein/ Stabile 2005: 609).

11 This is what Bernard Lepetit calls "an imperfect reinterpretation giving rise to a new meaning" (Lepetit 1995: 297).

12 Cf. the functioning of auditing firms and rating agencies (Mutti 2004).

13 This risk-taking is proper to the new forms of defined contribution pension schemes known as 401k, which replaced the traditional funds in the 1980s.

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Technology and Boundary-marking in Financial Markets

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Introduction

Contemporary financial markets are grafted onto complex technological structures, which affect transactions rules and roles, in ways in which go well beyond increased velocity or improved access to data. This has led several scholars to talk about the technological constitution of financial markets (e.g., Knorr Cetina 2005; Muniesa 2003; Zaloom 2006; Knorr Cetina and Bruegger 2002; MacKenzie and Millo 2003).

Intrinsic to this constitution is boundary-marking: i.e., the procedures (Gieryn 1999) through which markets are classified with respect to other social institutions. I will attempt here to explore this aspect by examining an empirical case: the role played by price-recording technologies in the constitution of a national securities market in the US. In the first step, I examine the concept of boundary and relate it to the agential features of technology. The second step deals with the boundaries of financial exchanges existing before the introduction of the first custom-tailored price-recording technologies. The third step shows how technology use triggered definitional shifts which reverberated in legal and political domains.

Boundary-marking and Technology

Boundaries are procedures employed by actors in delineating domains of activity and in making legitimate identity claims. The system of professions, for instance, consists in a set of boundaries, which mark interrelated jurisdictions. They comprise categories of activity, knowledge, and skills, together with privileged and socially controlled access to these activities (Abbott 1988). Boundaries establish domains within which the status of a body of knowledge appears as legitimate; epistemic claims are subjected to particular, domain-specific verification procedures, acknowledged by the community as appropriate (e.g., Knorr Cetina 1999: 111).

In some cases, boundary-marking implies the mobilization of heterogeneous actors, with different interests, skills, and standpoints (Leigh Starr 1989). This occurs, among others, when definitional uncertainties arise. Sometimes, classifications and categories resulting from this process become legal categories (Jasanoff 1995).

Boundary-marking is not exclusively grounded in the production of legal or scientific texts, or in debates. In many instances, boundary-marking implies a mix of discursive and non-discursive procedures, of explicit argument and tacit skills, as well as the mobilization of technology (Bowker and Leigh Star 1999). This can become the basis for definitional arrangements and for the mobilization of groups involved in classifications and in boundary-marking.

Michel Callon and Fabian Muniesa (2005: 1229) have argued that markets are collective calculative devices, which operate under uncertainty and generate compromises about the nature of goods and their value. Accordingly, markets are technological arrangements, comprising formulae and artifacts which project paths of action. These arguments highlight the agential features of technology, its standardizing capabilities, and definitional power: technologies introduce distinctions and classifications which endow exchange items with specific properties.

In certain situations at least, uncertainties and/or ambiguities can arise with respect to an institution as a whole. Institutions like stock exchanges do not always have clear-cut social and legal statuses. They can be several things at once – e.g., private associations, yet openly accessible trading places. They can lack a precise legal definition, or have a legal status at odds with access and control issues. This can entail both legal and practical problems with respect to the character, status, and validity of contracts, to exchange procedures, and to the roles taken by market actors.

Definitional uncertainties can be expressed in unclear legal statuses, or in clashes and controversies surrounding financial transactions. The absence of a legal frame (or an ambiguous one) would lead to controversies about the status of transactions, access to financial data, and data ownership, among others. Such clashes would entail the mobilization of non-financial groups and institutions in the definitional process, like courts of law and legal scholars. When technology becomes a resource in boundary marking, engineers and technology firms become engaged in the process of maintaining and consolidating institutional definitions and boundaries, along with regulators, legal scholars, and brokers. Definitional processes mobilize legal, technical, and professional authorities, which are brought together in a "trading zone" (Galison 1996).

What is then the link between technology and the definitional problems facing stock exchanges? I will turn now to examining this starting from a short discussion of the legal aspects of financial transactions, and of the way technology intervened in these problems.

The data I use in this analysis come from legal cases and commentaries, reports of the New York Stock Exchange (NYSE), reports of the Securities Exchange Commission (SEC), and technology firms, covering the period 1905-1963.

The Status of Stock Exchanges

We expect transactions to be reinforced not only by mutual bonds of trust, but to have some legal backing as well: that is, to be acknowledged as commercial contracts and reinforced (if need may arise) by courts of law. Most times, it would not even cross our minds that financial transactions could not have the status of commercial contracts. What we do not realize is how recent this status is: in the UK, transactions on the stock exchange were acknowledged as commercial contracts by the Finance Act of 1909-1910 (Poley 1926: 154). In the US, financial transactions on the stock exchange were not regulated by federal law until the Securities Exchange Act of 1934. At state level, the State of New York acknowledged stock exchange transactions as commercial contracts only in the Personal Property Law of 1909, which defined a financial security as an instrument evidencing a right with respect to a property or a share (Article 7-B, Section 251, Def. 1-2). A previous law, adopted in 1812, declared void all contracts for the sale of securities which the seller did not own at the time of the contract (effectively banning short selling and options trading). This law was repealed in 1858 and not replaced by a new provision (Campbell 1922: 35).

Several aspects impeded on the recognition of transactions as contracts. First, it was not clear that financial securities were similar in nature with other goods. Second, transactions on the stock exchange were oral; usually, they were not followed by a written contract. During the 19th century, brokers did not always keep transaction ledgers; they only wrote orders on slips of papers, which could be easily destroyed, lost, or forged. A certificate of stock, endorsed in blank, was not a negotiable instrument at common law (Campbell 1922: 83). Until 1922 at least, transactions could be repudiated by brokers before clearing or comparison tickets were exchanged (Campbell 1922: 11), a process which could take several days. If repudiated, a financial transaction could not be reinforced in a court of law. The main (if not the only) enforcing mechanism was provided by the statutes and rules of stock exchanges, including codes of honor. Third, NYSE (and many other exchanges too) was organized as a private, self-governing association of voluntary members. Many legal scholars considered that such an association could not be regulated at the federal level. When the Securities Exchange Act (SEA) was passed in 1934, it was considered unconstitutional by some exactly on this premise (Meyer 1934: 28).

Although during the 19th century we encounter litigations concerning unfulfilled orders, or transactions which ran counter to the client's order, there was no firm legal basis or prevailing legal opinion for deciding them. This was due to continuing uncertainties concerning the status of securities, the nature of transactions, and the possibility of regulating a private, voluntary association. NYSE, however, took a prominent place in the public sphere. It was publicly accessible both by potential investors and by tourists; its transactions affected a large number of individuals and institutions; it was constantly observed by and reported in the media.

Technological Innovations and Institutional Boundaries

From 1867 to the early 1960s, NYSE introduced a series of consequential technological innovations with respect to price-recording and price-displaying. The first was the stock ticker (1867), followed by cinema screens in 1923, teletypes in the 1940s, and several computerized price-recording systems in the early 1960s.

The ticker brought together three groups of actors: official brokers, engineers, and telegraph companies. While brokers installed the technology in their offices, the tickers were owned by telegraph companies. Western Union had a monopoly on lines and machines, supplying them only to approved brokerage offices. Nevertheless, telegraph companies did not own price data. The public display of and access to data stood in contrast to the fact that they were privately owned and controlled by the NYSE.

In 1914, NYSE established a Committee on Quotations (imitated later by the New York Curb Exchange). The aim was to enforce the monopoly on price data and to "exert more efficiently all possible powers in their [the bucket shops']1 extermination" (Meeker 1922: 339).

Price-recording technologies led to the reorganization, role differentiation, and specialization on the floor of the NYSE, a process which was copied by other exchanges. Specialized trading posts were installed around stock tickers, which displayed only certain classes of securities. Specialist traders concentrated price information. Central quotation boards were installed: they aggregated the specialized price information generated around each trading post. Additionally (and crucially) specialist traders had exclusive control of their order book, which contained information about transactions and investors no one else could have. Specialist traders also acquired a trading monopoly on limit orders (Neill 1950: 315): they were the only ones who had a near real-time grasp on the flow of data enabling the execution of such an order.

In 1934, the Teleregister2 Service was introduced in New York brokerage houses; it tabulated and displayed price data, replacing conventional quotations boards (The New York Curb Exchange 1946: 29). The data were recorded on paper sheets; retrieving them was still a manual operation, performed by armies of operators, who worked in the quotations department, in groups differentiated according to classes of securities. Each group was assigned a telephone number. The broker wanting the price history of a certain security dialed the respective number and got the data from the operator (New York Curb 1931: 31).

There was at least a double monopoly on price information: internally, specialist traders monopolized information of certain classes of securities. Externally, NYSE had a monopoly on authoritative price data and on overall access to price-recording technologies. Brokers who were not members of the NYSE and who operated from unofficial, smaller, or less reputable brokerage houses had to restrict themselves to unlisted securities. In 1911, Arthur B. Elliott founded the National Quotation Bureau (NQB), which compiled price and volume data from various brokerage offices operating in unlisted securities. The NQB centralized this data and produced price and volume lists (the Pink Sheets), sold to brokers operating over the counter (Babson 1935: 138). The Pink Sheets could be accessed in brokerage offices or could be subscribed to, but were not publicly displayed. They were privately used and owned, although centralizing a considerable amount of data. In 1938, the Maloney Amendment to the Securities Exchange Act of 1934 created the National Association of Securities Dealers as the self-regulatory organization of over the counter brokers.

An effect of electromechanical price recording and of data centralization on the NYSE was that it was now possible to produce and compile statistics about price variations and volume of trading. Regular3 transactions in listed securities on the NYSE were now recorded. This opened up the possibility of self-monitoring, but also that of being monitored by third parties.

To sum up: we encounter here several boundaries that were reinforced by price-recording technologies. First, there was an institutional boundary between official and unofficial brokers, official and unofficial exchange systems, which did not exist in this form before. Second, there was a boundary concerning the character of price data: while publicly displayed, they remained privately owned and reinforced the private character of transactions. The technology reinforced stock exchanges as institutions which display to the public; yet, these institutions remained private associations and therefore beyond public regulation. Public access to price data was meant to provide the means for and encourage participation in stock exchange transactions; public participation, however, could not be accompanied by public intervention in how transactions were conducted.

Technology and Definitional Shifts

In 1905, the case of the Board of Trade of the City of Chicago v. Christie Grain and Stock Co. was brought to the US Supreme Court (198 U.S. 236). Christie Grain and Stock Co. was a bucket shop trading in options on agricultural commodities, among others. It should have had no access to the ticker prices of the Board of Trade; yet, it managed to get and publish them (most probably by tapping into telegraph wires). The Board introduced a lawsuit, which went up to the US Supreme Court, where the final legal opinion was delivered by Justice Oliver Wendell Holmes, Jr.

Christie & Co. made its case on two grounds: first, while it was specialized in options trading, this sort of trading was widely practiced by the official members of the Board of Trade themselves. Therefore, while Christie's activities may have been illegal, some activities of the Board of Trade were too (the Statutes of Illinois' Criminal Law declared options contracts as void)**4**. Second, ticker prices had a public use, because they influenced the decisions of businessmen. Therefore, Christie's access to price data was legitimate. The defense's argument was that: "if, under other circumstances, there could be property in the quotations, which hardly is admitted, the subject matter is so infected with the plaintiff's own illegal conduct that it is caput lupinum, and may be carried off by any one at will."

In his opinion, Justice Holmes stated that members of the Board of Trade dealt in options only as a means of "self-protection in business." "The contracts made in the pits are contracts between the members" and fall within the Charter of the Board of Trade. They differ from contracts made with the public. "In a modern market, contracts are not confined to sales for immediate delivery. People will endeavour to forecast the future, and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. […] This court has upheld sales of stock for future delivery and the substitution of parties, provided for by the rules of the Chicago Stock Exchange." (198 U.S. 236). Consequently, trades by (official) members of the exchange have a special character: they require special competencies and serve the greater society.

Justice Holmes's other argument concerned the character of price data generated by the ticker. This had nothing to do with the alleged illegality of some operations conducted by members of the Board:

It seems to us an extraordinary and unlikely proposition that the dealings which give its character to the great market for future sales in this country are to be regarded as mere wagers or as "pretended" buying or selling, without any intention of receiving and paying for the property bought, or of delivering the property sold, within the meaning of the Illinois act. Such a view seems to us hardly consistent with the admitted fact that the quotations of prices from the market are of outmost importance to the business world, and not least to the farmers; so important, indeed, that it is argued here and has been held in Illinois that the quotations are clothed with a public use (198 U.S. 236).

At the same time, "the plaintiff's collection of quotations is entitled to the protection of the law. It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's. […] But so far as these contracts [between the Board of Trade and telegraph companies] limit the communication of what the plaintiff might have refrained from communicating to anyone, there is no monopoly or attempt at monopoly, and no contract in restraint of trade, either under the statute or at common law."

While price quotations remain private property, they are "clothed with public use." Stock exchanges do not exercise any monopoly on price data. These are private property and confidential communication; the exchange might choose to make them available only to a restricted group. This opinion introduces a boundary between data ownership and data use, grounded in the technology-based character of price data. Justice Holmes explicitly refers to "quotations of the prices continuously offered and accepted, […] collected at the plaintiff's expense, and handed to the telegraph companies which have their instruments close at hand, and by the latter [are] sent to a great number of offices." These data affect the business world and have public use, which does not preclude charging a price or selecting users.

The legal acknowledgment of ticker-generated price data as having public use played a significant role in subsequent attempts to regulate financial exchanges. In 1909, when the Hughes Committee (set up by the US Congress) investigated allegations of monopoly, fraud, and manipulation on the NYSE, it refused to recommend incorporation (which would have opened the way for federal regulation, and which was bitterly opposed by the Regular Board). The Hughes Committee, however, acknowledged the New York Stock Exchange as a "national market" on the basis of tracking transactions: it established that 48% of all transactions conducted on the NYSE did not originate in New York City. The role of the "fully developed wire house" in the transformation from a local institution to a "national market" was also acknowledged (Meeker 1922: 329). This sort of statistics – taken as evidence for a definitional shift – would not have been possible without a price-recording and transmission technology.

In 1934, when the SEA was passed, these distinctions played a significant role. Federal regulation of stock exchanges as private associations would not have been constitutional, and they strongly resisted incorporation. The way to regulate stock exchanges at the federal level was through interstate commerce and mail.**5** But stock exchanges had to be redefined as conducting interstate commerce and as subject to mail regulations. This redefinition had two components. On the one hand, they were redefined as national securities exchanges and required to register as such. Only registered exchanges were allowed to conduct business through mail and across state borders. Registration as a national securities exchange also meant that transactions had to be recorded (Meyer 1934: 15) and (if necessary) reported to the newly created SEC.

This also meant redefining stock exchanges as "affected with a national public interest" (Meyer 1934: 28). This public interest could come only from the character of price data. Prices "are generally disseminated and quoted throughout the United States and foreign countries and constitute a basis for determining and establishing the prices at which securities are bought and sold, the amount of certain taxes owing to the United States and to the several states by owners, buyers, and sellers of securities, and the value of collateral for bank loans" (Meyer 1934: 28). This passage from the Section 2 of the SEA 1934 spells out how price quotations are of public use and affect public interest. Widely disseminated price data meant that both they and the institutions generating them were subject to federal regulation; indeed, the SEA specified that only registered stock exchanges (or members thereof) could transmit price quotations outside state borders (Meyer 1934: 42). The SEC was empowered to make rules regarding the quotation of transactions and the method on recording them on the ticker tape (Meyer 1934: 99, 124). The SEC was also empowered to make rules concerning over the counter transactions, which did not use tickers and did not fall under the definition of "national markets." The reason for the regulation of OTC brokerages was to prevent registered exchanges from siphoning off securities to this market.**6**

Interestingly enough, in his statement before the US Congress Committee about the SEA 1934, Richard Whitney, the President of the New York Stock Exchange acknowledged the definition of stock exchanges as public markets, but argued that information disclosure would transfer important market functions to a department of government, and implied that these requirements would destroy "a free and open market" (Whitney 1934: 4).

Technology and Boundary Evolution

Data collection, mandated by the SEA 1934, made possible the analysis of price movements as the consequence of individual or group actions, and to investigate the social structure of the New York Stock Exchange both from a quantitative and a qualitative point of view: that is, to describe not only the role differentiation on the exchange floor, but also the volume of trade controlled by or flowing through certain roles. For instance, it became possible to calculate the volume of specialist trading versus broker trading, the volume of trade in regular lots vs. odd lots. It also became possible to investigate the social structure of investors dealing on the New York Stock Exchange, their gender, age, and professional differences.

Up to the 1960s, the vast majority of NYSE investors were individual, not institutional actors. The analysis of price data and transactions could provide evidence about possible price manipulations undertaken by individuals, as well as about monopolies on the floor of the exchange. Very shortly after its organization, the SEC began surveys of the New York Stock Exchange, with the aim of devising "rules for the regulation of trading on exchanges" and of studying "the effect of such rules on market activities and operations" (SEC 1938: 21). In order to conduct these surveys, the SEC distributed detailed questionnaires to all classes of traders and began surveillance of price data: "The tape quotations of the New York Stock Exchange and the New York Curb Exchange were under continuous observation, and complete lists of daily transactions were required to be furnished by all exchanges" (SEC 1938: 22). The SEC also conducted interviews with customers and assembled data on their social background (SEC 1947). Concomitantly, the New York Stock Exchange began conducting its own surveys, partly in order to build up a counterweight to the SEC's data.

These surveys were relatively difficult and laborious; the minute analysis of price movements had to be tied to transactions, in order to determine who bought or sold what, and when. A study of the possibilities for expanding computer recording of trading data had been already made in 1956, but was met with resistance by the firms handling odd lot trading (SEC 1963, Part 5, Ch. 6, Part E: 93). In 1960, the NYSE had established the Department of

Operational Planning and Development, charged with pursuing computerized trading. In a survey published in 1963, and occasioned by a market crash in May 1962, NYSE stated that it had set up plans for technological expansion in the early 1950s. The final aim was to develop a "complete data processing system" which "will mechanize virtually all present manual operations in the Exchange's stock ticker and quotations services" (NYSE 1963: 48-49). The plans were to have a system which will "automatically locate the latest trading data, assemble a message from a pre-recorded vocabulary of 126 words, and 'speak' it out over the phone to the caller – all in a few seconds" (NYSE 1963: 49). According to this description, the technology required by NYSE was so unique that it offered "potential designers and manufacturers little opportunity for adapting or modifying it for use in other industries" (NYSE 1963: 48).

NYSE worked closely with Teleregister Co., which had developed the teletype machines. In the early 1960s, a former manager had started the Bunker Ramo Co., a computer firm with links to the air defense industry. Bunker Ramo provided brokerage houses with computer terminals which in 1964 could retrieve 3 or more bits of data simultaneously. Additionally, NYSE had enrolled IBM to develop a computer system for storing and retrieving price data. The cooperation with IBM led to an internal report in 1968, but the IBM plans were never implemented. Instead, NYSE continued the cooperation with Bunker Ramo and with two other firms, Scantlin Electronics and Ultronic Co. (Anonymous 1983: 60).**7**

On its side, the Securities Exchange Commission, which also conducted market surveys, was interested in procedures of data compilation which should allow more comprehensive studies, done in a speedier fashion. In April 1963, the SEC sent to the Committee on Interstate and Foreign Commerce of the US Congress the Report of Special Study of Securities Markets, a document of over 7,000 pages. It contained a factual description of the operations on the NYSE's exchange floor and of OTC brokers, a statistical analysis of trading volumes and price movements, and a series of recommendations to the US Congress. Several sections were dedicated to the "possibilities of automation" in financial markets. The Special Study acknowledged that computer systems for the recording of price and transaction data were implemented in NYSE brokerages, and that OTC trading had also been "slightly touched" by automation. It stated that:

If securities markets are to be truly public institutions, as they have been under the law for 30 years, the public interest in questions of automation must have a voice. The Commission should equip itself to keep abreast of electronic and computer developments in the securities industry. Otherwise, these may be neglected or suppressed for want of any consideration of the public interest (SEC 1963, Part 5, Ch. 6, Part E: 93).

The SEC made to Congress the recommendations that the potential impact of automation is affected with public interest (SEC 1963, Part 5, Ch. 6, Part E: 108), and should be used by regulatory bodies as a surveillance technique, in the same way it was used by the NYSE (SEC 1963, Part 5, Ch. 6, Part E: 122; Ch. 12, Part B: 180). Automation was also recommended as a means of regulating OTC trading. Discussing the need to identify the "primary market makers," the Special Study recommended that:

Beyond this data-supplying function, a system of continuous classification and identification would serve as a basis for whatever degree of further regularization and regulation of over-the-counter markets may seem warranted, now or in the future, in what should be a continuing effort to improve and strengthen such markets generally" (SEC 1963, Ch. 7, Section F: 670).

The definition of a public market is tied to the comprehensive record of data and to the involvement of regulatory bodies in this process. The old boundary between floor trading and OTC trading, which largely depended on the use of price-recording technologies, is superseded by automation as a defining feature of markets as public institutions, and by the requirement to regulate them based on the data they produce. This marks the beginning of an accelerated market technologization, which will flourish in the late 1970s and early 1980s with the adoption of the first automated trading platforms and the large scale expansion of computer terminals in brokerage services.

Conclusion

Technologies for recording, displaying, and memorizing price data opened up ways of monitoring and analyzing "market behavior" which otherwise would not have been possible.

The extensive adoption of computer technologies in the late 1970s has been seen by some observers as triggering the deregulation of financial markets. However, the accelerated expansion of computer technologies was preceded and encouraged by regulatory involvement with data-recording, understood as the continuation of a longer process of definitional transformations.

The legal definition of price data as having public use opened the way for regulatory interventions, including the support for further technological developments in financial exchanges. Technology was not just an external occasion for legal scholars to formulate these definitions. Technology was and continues to be the frame in which these distinctions maintain their validity, as well as a tool for their reproduction. In this sense, among others, technology did constitute markets as we know them today.

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Endnotes

1 Bucket shops were unofficial brokerage houses, some of which (but not all) dealt in options; there were considerable differences in wealth and reputation among them.

2 The company providing the Teleregister Service was acquired by Martin Marietta (an air defense contractor) in the early 1960s, but continued to provide financial data services to members of the New York Stock Exchange. In 1964, the then-chairman of Martin Marietta, together with a computer engineer, formed the Bunker Ramo Co., which provided computerized data systems to brokerage houses (Anonymous 1983: 60).

3 Regular transactions meant transactions in lots of 100 securities or multiples thereof. Significantly, odd lot transactions were not recorded. All NYSE brokerage firms, bar two, transacted in regular lots.

4 See, for instance, Pearce v. Rice, 142 U.S. 28.

5 Official brokers, for instance, were forbidden by the rules of the New York Stock Exchange to advertise business through mail, because this would have opened the door to federal regulation. Unofficial brokers, by contrast, who were not members of an exchange, could and did advertise by mail.

6 This happened by transferring from listed trading securities to the OTC trading. Only regular lot trading was recorded on ticker tapes, while odd lot transactions went unrecorded. A listed security could be withdrawn from regular lot trading, traded in odd lots and thus transferred to the unrecorded OTC trading. This allowed brokers to circumvent the monopoly and control of the Regular Board. Generally, it was considered that OTC brokers dealt only in unlisted securities, but the attention given by the SEA 1934 to this problem indicates otherwise. The Special Study done by the SEC in 1963 found that 10% of the overall trading volume on the New York Stock Exchange was in odd lots and controlled by only 2 brokerage houses (SEC 1963, Ch. 6, part E: 91).

7 Scantlin Electronics was a Western Electric subcontractor, which also built attenuators for the US Navy.

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Viviana Zelizer Answers Ten Questions about Economic Sociology

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Professor Zelizer specializes in historical analysis, economic processes, interpersonal relations, and childhood. She has published books on the development of life insurance, the changing economic and sentimental value of children in the United States, and on the place of money in social life. Her most recent book, The Purchase of Intimacy (Princeton University Press, 2005) *deals with the interplay of economic activity and personal ties, especially intimate ties, both in everyday practice and in the law. In addition to English editions, translations of her books have appeared in French, Japanese, Chinese, and Russian.*

1. How did you get involved in economic sociology?

In a sense, I just backed into the field. For years I worked mainly on changes in American social life, with special attention to how economic processes affected it. My first three books dealt with the development of life insurance, the valuation of children, and people's uses of money. I thought of myself as a historical sociologist, but not in the grand style of comparing empires, whole economies, and industrial revolutions. Then scholars who clearly belonged to economic sociology, such as Pierre Bourdieu, Harrison White, and Richard Swedberg, began using my work and treating it as a challenge to conventional economic thinking. Surprised but pleased, I gladly joined debates about how economic processes work. By the time I published my Purchase of Intimacy in 2005, I was both teaching my own version of economic sociology and contributing regularly to symposia on the subject – especially when organizers wanted to show how economic analysts could treat culture and small-scale interpersonal relations effectively. My students then drew me farther into the study of economic organizations and transnational economic processes. That placed me in the middle of discussions about the proper pursuit of economic sociology.

2. Could you name books or articles that have profoundly influenced your own thinking about economic sociology?

To be honest, that is not really the way I work. My own approach tends to first single out a descriptive and explanatory problem and then I look around for people who have made contributions to analyzing that problem. It is true that I find myself often going back to Georg Simmel's work on money. Nevertheless what really matters to me are ways of thinking rather than specific theorists.

3. What do you see as the main differences between economic sociology in the United States and Europe?

Two main differences: first, that the economics to which Europeans are responding is quite different in emphasis, reflecting more of an institutional, historical, and comparative background than U.S. economics; and second, that economic sociology connects more closely with reform and applied programs in Europe than it does in the U.S. My work with the economic sociology section of the American Sociological Association has led me to recognize the tense but potentially very fruitful dialogue Americans are carrying on along the same line. Despite starting out as a specialist in the American economy, within the section I found myself increasingly connecting European and American work in this vein (it helps that I grew up bilingual in Spanish and French).

I have recently been helping French scholars organize what they call the Paris School of Economics. That effort and my extensive contacts with other economists in the Paris region has revealed a world of scholarship in which many people are trying to make strong connections among moral theories of the economy, ideas of social change, and public policy. French economists and sociologists have moved toward the formulation of truly alternative, socially based description and explanation of economic activity. Denying any intrinsic division between sociology and economics, for example, economist André Orléan has recently issued a stirring call for what we can name alternative accounts of economic activity in general.

4. What are according to you the main current debates within the field? What research topics have so far been neglected or have not received enough attention?

That's a huge, attractive topic but it would take too many words to respond properly. I have already spoken out about these issues in my essay "Past and Futures of Economic Sociology" which just appeared in the *American Behavioral Scientist*. As I say there, in the past years the field has significantly expanded. As one sign, consider the table of contents in Neil Smelser and Richard Swedberg's (2005) second edition of their *Handbook of Economic Sociology*. It prominently features new institutionalism, emotions, behavioral economics, and law, all subjects absent from the first edition's table of contents only eleven years earlier. Four other new important topics are:

- Multiple markets: from an earlier almost exclusive focus on production, economic sociologists are now expanding their analysis into other markets, especially financial markets, consumption markets, markets for personal care, and what they loosely call the informal economy.

- Culture of firms: economic sociologists are finally shedding their structural armor, and studying how the meaningful content of social ties shapes transactions and alignments within firms.

- The production and reproduction of inequality, notably gender inequality. Economic sociologists increasingly challenge status attainment models that account for inequalities as results of encounters between biased market selection and attributes of individuals.

- Households as intense sites of economic activity. Here economic sociologists, along with their allies in economics and anthropology, not only identify extensive, consequential production, consumption, distribution, and transfers of assets but also interaction patterns that defy representation as short-term spot markets.

My recent work has responded to all of these new trends, notably analyses of multiple markets and of households. My book *The Purchase of Intimacy*, for instance, draws on most of them as it examines how people match a wide variety of intimate relations with economic transactions. Far from adopting a uniform maximizing mentality, when they enter the economic world people use great creativity in distinguishing different intimate relations from each other and regularly support those distinctions with differentiated economic transactions. What's more, the law mobilizes a parallel but not identical matching of intimate relations with economic transactions. In both everyday life and the law, all the evidence I've seen challenges the common idea that the economy and intimacy corrupt each other when they come into contact.

5. In your recent book *The Purchase of Intimacy* you devoted much of the evidence to American legal cases. What part do you see the law as playing in your version of economic sociology?

Intimate relations only become legal cases in rare circumstances; most of the time intimately connected people work out their differences without litigation. By studying what happens when disagreements turn into lawsuits, however, we see how legal systems construct their own conceptions about how intimacy should or not mix with economic transactions. Those legal doctrines sometimes coincide with but often depart from ordinary people's view about the same issues. When people go to court, their definitions and conceptions of what went wrong, who's to blame, and what should the penalty be, have to conform to existing legal criteria. A person who cared for an elderly patient who promised her an inheritance may feel like she acted as the person's child and is therefore entitled to the bequest. The law, however, will most likely treat her as a stranger and deny her request.

Generally speaking, legal disputes evoke contending principles and reasoning much more explicitly than parallel disputes within firms or households. The law, also, builds a shadow theater for the conflicts of everyday life, projecting them starkly against the backdrop of statute and precedent. Finally, legal decisions strongly and directly affect relationships between intimacy and economic activities as they intervene in such issues as the rights of same sex couples, the legal claims of full-time housewives when they divorce, the organization of baby markets, and children's rights to inheritance.

In the past few years, some of my most interesting dialogues have been with legal scholars critical of the law and economics program and therefore eager to explore new understandings of how the economy works, and in particular how we should go about treating the intersection of economic activity and intimate relations.

6. You have advocated in your work that economic sociologists provide an alternative to explanations of economic life that we hear from economists. Can you say more about that?

I've never been much of a system-builder. I prefer to use extensive evidence to answer concrete questions. Still, this line of argument leads me to think that economic sociologists should be taking three major steps that will lead them in somewhat different directions. First, they should abandon all sharp dichotomies between personal and economic ties. Instead they should study variations and interdependence among differentiated and meaningful social ties, accounting systems, media, economic transactions and boundaries. Second, they should also abandon the pervasive idea of a continuum from genuine arm's length market transactions to strictly non-economic transactions, with its implication that the market end of the continuum excludes personal considerations. Third - and no doubt more surprising – they should take the idea of performativity seriously. Analysts of performativity have only begun to show precisely how economics as a discipline has shaped the world of corporate capitalism. Yet in the spirit of a cultural approach to economic life, it makes sense to suppose that available cultural schemes, including academic disciplines, shape the ways that people carry on their economic activities. If so, successful schemes from economic sociology could also have a chance of shaping how people conduct their economic lives.

Overall, I can say that my main agenda has two components: first, to put negotiated interpersonal relations directly into economic analysis and second, to recognize the effects of cultural variation within the same economic processes. We must recognize that both markets and households, far from reducing to rationally calculated dyadic transactions, involve sites of continuously negotiated, culturally drenched interpersonal relations.

7. It seems important for you to establish a dialogue with economists. What are some feasible strategies to accomplish that?

As it happens, the recent successes of behavioral economics, game theory, feminist economics, organizational economics, institutional economics, and household dynamics have all produced welcome openings for dialogue between economics and sociology.

Some economists have begun to look seriously at culture and social relations. Take just two recent examples. First, economist Robert Gibbons' 2005 article "What is Economic Sociology and Should any Economists Care," in the *Journal of Economic Perspectives*. Gibbons answered yes to his rhetorical question, reporting that his own interest began "when I recognized that some sociologists were working with independent and dependent variables that were barely mentioned in the economics literature, but seemed potentially quite important." Gibbons calls for a "Pareto-improving dialogue between the appropriate margins of economics and sociology."

Second, Luigi Guiso, Paola Sapienza, and Luigi Zingales, in a Spring 2006 article in the same journal ask "Does Culture Affect Economic Outcomes?" and also answer a resounding yes. Although they do not cite economic sociologists (with the exception of rightly praising Paul DiMaggio's work), they treat culture – by which they mean collective beliefs, identities, and preferences – seriously, not just as an outcome but as an independent causal factor. They conclude that "importing cultural elements will make economic discourse richer, better able to capture the nuances of the real world, and ultimately more useful."

However, if they want to have a serious impact on economics, economic sociologists cannot simply wait for bright-eyed economists to notice what they are doing. Economists pay serious attention when analysts make direct and cogent bids to revise existing economic analyses. Notice the great difference in impact by three bodies of relevant innovative work that have grown up over the last 20 years: game theory, behavioral economics, and economic sociology itself.

Game theory for all practical purposes has become an integral part of economic theory. Every economics student learns game theory. Game theory has made it perfectly legitimate to set up analyses of economic choice situations not as individual cognitive decision-making but as a form of social interaction. It's a success story for a research program which at one point was alien to neo-classical economics.

Behavioral economics, despite its remarkable success, still remains at a half-way point. It may well follow game theory, but there is still a question whether it will fundamentally modify mainline economic theory or remain a critical, dissident movement within economics. In a review of *Advances in Behavioral Economics*, Wolfgang Pesendorfer notes that behavioral economics "remains a discipline that is organized around the failures of standard economics." This "symbiotic relationship with standard economics," notes Pesendorfer, "works well as long as small changes to standard assumptions are made." Despite the economics Nobel Prize shared by Vernon Smith and Daniel Kahneman, we have yet to see the micro-foundations of standard economics transformed as the behavioral economists claim they should be transformed.

Economic sociology certainly has some of same potential as game theory or behavioral economics, but it has remained far outside the conversation. So far, it attracts only dissidents within economics. It is certainly not something that economics students routinely learn about. Economic sociologists face an interesting choice: plunge into the core models of economics in the wake of game theory and behavioral economics, or continue their current business in hope that friendly economists will do the importing for them.

The first choice means deploying the concepts, models, mathematics, and econometrics that have become economists' stock in trade. As economist Dan Silverman points out for the so far incomplete success of behavioral economics, it typically involves identifying processes that standard economic models must treat as anomalies, rewriting relevant economic models so they account for the anomalies, and establishing the empirical validity of the revised models. It may also mean reducing the dialogue with the rest of sociology. But the second choice means remaining peripheral to the exciting current transformations of economics. Given my own limited knowledge of technical economics and my preference for direct observation of economic interactions, of course, I hope that some of each – both integration of economic sociology into economic theory and sociological inquiry into economic processes – will happen in the foreseeable future.

It won't be easy, if only because the exemplary cases of game theory and behavioral economics involve modification, but not elimination, of economic models' deep individualism. It will take great theoretical, technical, and even rhetorical finesse to make interpersonal processes including culture genuine foci of economic analysis. How will sociologists rewrite economic models so that they incorporate the culturally drenched dynamics of organizations, households, institutions, and interpersonal ties?

Evidence that a rapprochement is possible in principle, however, comes from a fourth innovative field: institutional economics. Economic institutionalists in the style of Douglass North haven't reshaped microeconomics to anything like the degree that game theorists and behavioral economists have. But they have had a profound impact on macroeconomics, especially development theory. Institutional economists have plenty in common with institutional and economic sociologists: awareness of organizational processes, concerns about contract enforcement, openness to culture, and more. Although I hope we can continue the dialogue about small-scale economic processes and microfoundations, we also have an opportunity for an innovative economics-sociology alliance on the large scale.

Right now at Princeton, in fact, Avinash Dixit, president-elect of the American Economic Association, and I have been organizing a public dialogue between the two disciplines and it is working very well.

8. If you remember, your first ever contribution to EESN was a piece about the gendered division of labor on economic sociology, which appeared in the summer 2000 issue. What are your thoughts on this issue almost seven years later?

As in 2000, men still predominate in the field. However, largely as a result of the greater participation of feminist economists and household analysts in the discussions, both women and women's concerns have gained a significantly larger place in the agenda of economic sociology as a whole than they did seven years ago. For example, analysts are increasingly recognizing the economic value of unpaid work, typically performed by women. In my own research, I have been exploring two important questions: first, under what conditions does market based care provide adequate support for both the recipients and the providers of care? Second, to what degree is the quality of care given via the market and outside the market fundamentally different? European researchers such as Florence Weber have recently been examining those very questions, which also concern a number of U.S. sociologists, economists, and philosophers.

9. Your recent writing introduces a new concept to economic sociology – circuits of commerce. Why should economic sociologists pay attention to circuits?

Of course, I could be wrong, but it seems to me that students of such economic phenomena as migrant remittances, local monies, rotating credit associations, microcredits, personal care, corporate coalitions, and underground economies indicate that the standard concepts of hierarchies, networks, and markets don't capture the organizational form of a very important range of economic connections. I see those connections as organizing into circuits combining economic interactions, accounting systems, boundaries, and meaningful interactions among participants – circuits of commerce. My last contribution to the newsletter [November 2006] outlines a program for investigation of just such circuits.

10. What are some other of your current and future research plans on economic sociology topics?

As my answers to the earlier questions indicate, in recent times, two main topics have been preoccupying me; one of them is how economic circuits vary and change; the other is how various forms of intimacy intersect with economic processes. While Purchase of Intimacy focused on the interplay of intimacy and economic transactions outside of formal economic organizations, one of my new projects pinpoints interactions between intimacy and organizational effectiveness. Another examines the operation of codes governing moral behavior within organizations. And as I already mentioned, I continue to study the provision of interpersonal care.

Read and Recommended

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Roth, Louise Marie, 2006: *Selling Women Short: Gender Inequality on Wall Street.* Princeton, NJ: Princeton University Press.

Montagne, Sabine, 2006: *Les fonds de pension. Entre protection sociale et spéculation financière.* Paris: Odile Jacob.

Boltanski, Luc/ Laurent Thévenot, 2006: *On justification: Economies of Worth.* Princeton, NJ: Princeton University Press.

I would like to recommend three books that have little in common except two points: they were all published in 2006, and they are all interesting for economic sociology.

Some books are good books of economic sociology, or in this case sociology of finance, without knowing it. *Selling Women Short*, by Louise Marie Roth is mainly inspired by gender studies. Nevertheless it is very interesting for economic sociologists looking for detailed fieldwork on the world of finance. Unlike many contributions that focus on material or immaterial actors – theories, markets, screens –, Louise Marie Roth does not forget that there are also human actors at work in finance, of both genders: (mostly) men and (a few) women. She studies a well-known fact that has so far received little academic attention: the importance of pay discrepancy between men and women in finance. Therefore, she conducted in-depth interviews with 75 graduates from the best MBA programs in the US working in 1997 in major banks on Wall Street. This simple and clever method enables her to show the importance of pay discrepancy in a very homogenous population: women get 40% less. The interviews emphasize some of the mechanisms that lead to such inequalities. In a work marked by the importance of selective matching both within teams and with clients, minorities – like women – will only be able to match with second class colleagues and second class clients and will get a smaller share of profits once bonuses are distributed. Therefore, this analysis stresses also the importance of social capital in financial labor markets (see also Godechot, 2007).

Despite a title which is not very fancy (thanks to the publisher), Sabine Montagne's book, *Les fonds de pension* (i.e. *Pension Funds*), is not just another textbook on the financial industry. "The feudal and anti-liberal origin of finance – a genealogy of the pension industry" would have been a much better title for this very novel work, since it is really a genealogy in a Foucaultian sense. This history of the American pension industry is based on an analysis of law and jurisprudence. Pension industry is mainly based on trusts, a judiciary form that was invented in the Middle Ages in order for a settler to bind a trustee to manage a property (like a fief) for the benefit of a beneficiary, generally a minor beneficiary. In this type of contract, the different parties are not equally capable of defending their rights, since one is a minor, and the other is granted a great power on a property that is not his/hers. As the minor can not defend his/her right, it is the role of the institution (first the church, and after the state) to defend the minor's right in Equity courts rather than in Common Law Courts. It is precisely this type of judiciary form that at the beginning of the twentieth century American firms used in order to fund pensions for their employees, considered *ipso facto* as minor beneficiaries. This potentially unbound power granted to the trustees (pension funds) led the State to intervene in a direction that certainly weakened the trustee's power but also that of the employees. In order to defend the latter against the embezzlement of the trustee, jurisprudence ordered pension funds to follow very precisely the best practices in financial industry, that is the maximizing of shareholder value. Alternative ways of managing funds are therefore forbidden: for instance the ones that would take into account social indicators such as employment. This is how, Sabine Montagne explains, American finance, thanks to this very feudal contract and the power of the pension industry, succeeded in enclosing itself on its own terms.

Twenty years after it was first published[1], Luc Boltanski and Laurent Thévenot's very famous book, *De la justification*, was finally translated into English and published in 2006. The delay of the English translation was apparently due to a first faulty translation. Since I have not read the English translation, I will take the liberty of recommending the book on the basis of the French edition (1991). This book has been at the origin of numerous works and debates in French sociology. In a sense, it is also an economic sociology book as it rests on the analysis of management textbooks. It studies the moral structure of the arguments used to justify positions, agreements or disagreements. The *Cités* are different repertories of argumentation that are available for anybody who tries to justify his/ her actions. The plurality of *Cités* (domestic, industrial, inspired, civic, market and opinion *Cités*) produces a plurality of spheres of justice, as in Walzer (1983), based on different forms of worth that are difficult to conciliate. If agreement is possible between two types of justification based on two different types of *Cités*, it will always remain precarious, at the mercy of a criticism of one worth oriented toward the other worth. In the mid 1980s, Boltanski and Thevenot's *Justification* was seen as revealing of the "return of the actor", as a pragmatic shift of French sociology against the social deterministic and structuralist Durkheim-Bourdieu tradition and finally as a way of reintroducing "freedom" in the cold sociological world. However, I would claim that Boltanski and Thevenot's book is also very much inspired by structuralism and is in a sense structuralist. It is not a social-structuralist opus like Bourdieu's *Distinction* (1979), but it is an application to moral justification of the textual structuralism built in the 1960s by authors like Roland Barthes, Julien Greimas or even Michel Foucault. I would even say that contrary to its anti-deterministic claim, it contains a deterministic epistemology. Elaborating a grammar of morality means that structural forms produce some kind of determination: only some combinations of elements are possible, others, improper or even monstrous, are impossible (like the good example of a monster given on p. 278 (1991): distributing political tracts – civic world – at the door of one's grand-mother – domestic world). It is true that Boltanski and Thévenot's work could be seen as a new form of idealism. First, the symbolic structure of morality becomes a very important feature of the social. Second, there is sometimes a shift from the descriptive analysis towards a more normative position: it is not just what the structure of morality *is* but also, on occasion, what it *should be*. Whatever one can finally think of the fruitfulness of Boltanski and Thevenot's approach for empirical sociology2, their grand book has a great virtue: it is very stimulating.

Endnotes

1 A first version was published under the name *Les èconomies de la grandeur* in 1987. A much revised form, *De la justification*, was published in 1991.

2 One can find, for instance, interesting uses of such ideas for economic sociology in *Façons de recruter* by Eymard-Duvernay/ Marchal (1997) which focuses on the different types of judgment used by head-hunters in the hiring process.

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Book reviews

Book: Djelic, Marie-Laure/ Kerstin Sahlin-Andersson, (eds.). 2006: *Transnational Governance: Institutional Dynamics of Regulation.* Cambridge: Cambridge University Press.

Reviewer: Richard Deeg, Temple University, Philadelphia, rdeeg@temple.edu

This is an ambitious and successful effort to document and theorize the rapid expansion of actors and institutions operating across national borders. The authors adopt the concept of "transnational governance" (TNG) to encapsulate this evolving world order. They argue that TNG exhibits several distinctive characteristics.

First, TNG is characterized by the changing role and nature of actors. States are still very important, but they are being transformed and increasingly embedded in transnational networks of actors with whom they increasingly share transnational rule-making. The second set of important actors includes conventional international organizations. The volume, however, generally focuses on two other sets of increasingly prominent actors; "reinvented old actors" such as firms, universities, the media, and professions, which used to be rule-takers but are increasingly also rule-makers. "New actors" include NGOs, standards or experts organizations, and "transnational communities of interest," i.e., networks of actors with a common interest in a governance issue and in producing transnational regulation around that issue.

Second, transnational regulation is overwhelmingly in the form of soft law or 'soft rules' such as standards, guidelines, and norms. The informal character of such rules, and their general lack of statutory authority, means that compliance relies more on self-reporting and monitoring, socialization, acculturation, and normative pressures. In many instances there are more direct material incentives for compliance, such as access to membership and resources (e.g., professional associations) or certification (e.g., education). In general, the authors find that rule-making is exploding everywhere along with monitoring, evaluating, and auditing activities.

Third, network forms of organization are commonplace and increasingly important in constituting TNG. Networks typically form as new governance issues arise and actors recognize that their aims may be furthered through the creation of transnational regulation. Networks of actors are critically formed and guided through discursive practices that develop, over time, a common ground and identity among actors in the network – in this sense they are "communities of interest." In their concluding chapter, Djelic and Sahlin-Andersson argue that such networks have a self-expanding logic as actors tend to broaden the issue range of concern and new actors join the network as its impact grows.

To frame the book as a whole, the editors use an expanded conception of 'field' to capture the multi-layered, multi-level character of transnational governance. Fields of transnational governance are complex combinations of spatial, relational, and meaning dimensions. The spatial dimensions in TNG are complex and not always associated with political or geographic boundaries; they are decentered, multi-centered, and multi-layered. There is often no clear distinction between where governance is made and where it applies, i.e., rule-makers and rule-takers are often the same actors. The relational dimension captures the central role of networks and communities of interest in TNG. Finally, the meaning dimension captures the cultural and institutional forces that mostly operate in the background, but shape and structure patterns of behavior and interaction. The meaning dimension receives considerable attention in the book. It is constituted by five institutional forces that together structure fields and create a transnational culture or meaning system. These forces include scientization, marketization, moral rationalization, formal organizing, and discursive democracy. Scientization is the growing invocation and reliance on scientific methods and expertise to lend legitimacy to transnational regulations. Its advantage lies in its apparent value neutrality. Marketization captures the increased adoption of market mechanisms and values across all fields of governance. It is a force aided and abetted by scientization. Organizing actors – often organizations – into formal transnational organizations is a cornerstone of transnational governance and especially well-suited to standardization and socialization processes. Moral rationalization is the celebration of virtue and virtuosity, notably via ritualized performance displays such as world competitions, awards, etc. Finally, transnational governance is guided by the practice and belief in deliberative forms of democracy in which dialogue, deliberation and autonomy of actors produce soft regulations.

Altogether the spatial, relational, and meaning dimensions constitute actors, interests, relations and meanings. They become the taken-for-granted, meta-rules of the game that foster a transnational governance culture relying heavily on soft rules with voluntary compliance. Importantly, such rules leave considerable scope for local editing and adaptation.

The book is divided into three main parts. Each of the five chapters in part one focuses on one of the five institutional forces that constitute the meaning dimension. These chapters are generally quite successful in developing each concept but also in discussing concrete examples. Each chapter in part two focuses on a different primary actor (and their networks). These include law firms, multinational corporations (in regard to corporate governance regulation), central bankers, states, and universities. The final part of the book centers on the processes of TNG. These chapters provide historical accounts of the emergence and evolution of TNG in various sectors or policy domains such as accounting, anti-trust regulation, forestry, carbon emissions trading, and management education. Empirically these are some of the richest chapters in the volume and provide valuable illustrations of the general theoretical arguments laid out by the editors.

In the final chapter the editors return to the issue of what all this transnational regulation adds up to. First, they find a strong "governance spiral" driven by distrust, questions of responsibility, and the search for control. Ever-expanding regulation, shaped by the five institutional forces, creates a powerful underlying order out of what appears to be a chaotic set of transnational regulations and actors. Ultimately these forces foster convergence in regulation and the homogenization of actors. This process of "consequential incrementalism" is long-term, complex, and not unilinear, but it is leading to a world culture and society with all-encompassing governance (but no world state).

While the book makes a compelling and theoretical case for the expanded and expansive nature of transnational governance, the powerful teleology portrayed here deserves some questioning: The most important is to remember history – globalization in the 19th century was undone in the early 20th, and it can happen again. How, of course, is often hard to foresee at the moment. One answer lies in the domestic politics of nation-states. The importance of studying the interaction between national politics and institutions and transnational politics and institutions is alluded to, but rarely figures into analyses in the book. As the editors suggest, analyzing this interaction is a crucial next step for the literature and one, I would add, that would benefit from cross-fertilization with intergovernmentalist and constructivist theory in international relations.

Book: Möllering, Guido, 2006: *Trust: Reason, Routine, Reflexivity.* Oxford: Elsevier.

Reviewer: Sabine T. Koeszegi, University of Vienna,
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Guido Möllering presents a comprehensive work on trust as conceptualized in modern economic, sociological and management theory. He starts the analysis from the rational choice perspective and continually enriches the concept with perspectives from sociology and psychology. Eventually, he integrates the different strands into one holistic model of trust and expands it with Georg Simmel's idea of "suspension". The result of this effort is an integrative framework, what he calls the "wheel of trust". In the remaining chapters of the book, Guido Möllering discusses different empirical approaches and advocates qualitative research methods to obtain richer insights into the complex phenomenon. Subsequently, he presents three exploratory cases of buyer-supplier relations in the UK's printing industry and finally describes avenues for further trust research.

In more detail, Guido Möllering is pointedly revealing the different positions of the three main perspectives viewing either reason, routine or reflexivity as bases for trust. In the rational choice perspective, he argues, trust is conceptualized in the trust game and basically framed as a positive expectation of actors that their cooperative moves will not be exploited by the trustees. Guido Möllering criticizes that if trust is explained strictly in this calculative way (Reason), it is "explained away" (p. 4). He then extends the discussion with the ideas of sociological theories emphasizing that institutions and taken-for-granted routines build the fundaments of trust. In essence, Guido Möllering claims that institutions may promote or substitute trust (Routine) but they cannot explain the phenomenon of trust itself. It is how actors deal with the uncertainty and vulnerability which is at the core of trust, he argues. Finally, Guido Möllering refers to the literature taking a process perspective by suggesting that trust is developing gradually over time (Reflexivity). Again, the basic criticism of the author is that this perspective "misses the point" (p. 106) by ignoring that uncertainty and vulnerability are still in place, even if actors establish a relationship over time. But what is the point according to Guido Möllering? "Quite simply," he argues "that at the heart of the concept of trust is the suspension of vulnerability and uncertainty (the leap of faith), which enables actors to have positive expectations of others" (p. 191). Trusting humans interact "as if ignorance, doubts and dangers that exist alongside knowledge, convictions and assurances are unproblematic and can be set aside" (p. 115). There is, according to Guido Möllering a notion of "just do it" in trust and a "will to believe". As a particularly helpful evidence of this suspension, Guido Möllering refers to examples of trust in the context of medical care, where patients for instance ignore the risks incurred by surgeries due to medical malpractices by trusting their surgeons. By achieving this suspension "patients can be less terrified and undergo life-threatening brain surgery in a trustful, optimistic way" (p. 122).

Trust: Reason, Routine, Reflexivity highlights the powerful role of trust in society. In the following, however, I want to reflect on some aspects of trust, which have remained in the shadow of Möllering's analysis by revealing implicit (and ideological) assumptions suppressing alternative points of view.

With his framework, Guido Möllering claims to explain the phenomenon trust in general. Irrespective of the identity of the affected persons and of the context in which trust becomes relevant, Guido Möllering suggests that there exists one true theory, capable of fully explaining the very personal and intimate experience of trust. In doing so he follows a "grand narrative" of modern theory which has been criticized strongly by Lyotard in "The Postmodern Condition" in 1979. I want to challenge Guido Möllering's general claim.

Guido Möllering implicitly reduces trust to its instrumental value by defining trust as a psychological state that "enables actors to have positive expectations about others". Statements like "Unless we are able to say what makes trust so unique – and powerful – we run the risk of turning it into an obsolete or meaningless category that is easily dismissed as helpless or hypocritical rhetoric" (p. 191) underline that trust has to be "powerful" in order to be meaningful. What he neglects with this argument is that trust also has an intrinsic value (see e.g. Weinstock, 1999). Being authentic, true and open, bereft of any egoistic motives when encountering others, we can express our respect simply as humans. In these moments, we trust without intending to reach something. Trust with its intrinsic value cannot lose its meaningfulness when it has no purpose or when it is not "enabling" actors to do something. But the questions arise, when is it important to put the instrumental value on the front? What is trust instrumental for? When is trust rendered helpless? When is trust a "powerful" concept? And for whom is it powerful? Most of the examples Guido Möllering cites throughout the book are drawn from a business context except for the ones in the medical context mentioned earlier. A person trusting somebody else makes a "leap of faith" over a "gap" to reach positive expectations. Especially in the economic context, scholars have claimed that trust is a "powerful" concept because it allows economic actors to take social risks. Thus, trust becomes necessary only if opportunism is the prevalent goal of an actor or a prevalent motive in the specific context. Guido Möllering is not making this point explicit but he puts "vulnerability and uncertainty" at the core of his trust definition. While economists are very clear and open about their basic assumptions of humans (rationality, self-interest, utility maximisation and opportunism) Guido Möllering's assumptions remain implicit but seem not to differ in essence from those of the economists he is criticizing so harshly. According to him, trust is a powerful mechanism because it is instrumental for reaching [economic] goals without addressing the dis-functionality of trust. He never asks the question: When should humans not put themselves willingly into a position of vulnerability and possible exploitation? Trust definitely puts the trustee into a better position whereby it remains uncertain – here I absolutely agree with Guido Möllering – if the trusting person will benefit from trust. Take the examples in the context of medical care which are referred to as "resonating particularly well" (p.122) with the notion of the leap of faith. In recent years, there have been numerous examples in the media where less trust in medical care systems would have been beneficial for the patients. I do not want to say that people should have less trust in their doctors. Instead I want to make the point that restricting the discussion to the positive consequences of trust (a) neglects the "shadows" of trusting and (b) suppresses the role trust plays in asymmetrical power relations.

Finally, I want to turn to another issue which is frequently discussed in the post-modern literature. Although stressing the importance of reflecting the reflexivity of the researchers' work (p. 154) and that trust "requires rich interpretation by actors and observers in order to arrive at understanding" (p. 156), Guido Möllering neglects in his text a fundamental social category distinguishing between male and female. I was surprised to find the entire book written in a completely gender-insensitive manner. By using only male pronouns and designations, Guido Möllering not only explicitly excludes women from his considerations but implicitly also assumes that trust research is not gendered. I doubt that such essential experiences as trust can be understood without the means of ethnographic research giving room to so far silenced voices.

In conclusion, I think that *Trust: Reason, Routine, Reflexivity* offers the reader a well-written, comprehensive summary of the current state of trust research. Furthermore, it introduces a helpful framework to understand three different perspectives on trust. Especially readers from the management and economic background will find in this book interesting insights for the management practice. However, scholars looking for a critical or even a groundbreaking perspective on trust may want to search further.

Book: Florian, Michael/ Frank Hillebrandt (eds.), 2006: *Pierre Bourdieu: Neue Perspektiven für die Soziologie der Wirtschaft.* Wiesbaden: VS Verlag für Sozialwissenschaften.

Reviewer: Cornelius F. Moriz, University of Freiburg im Breisgau, c.f.moriz@web.de

The focus of the anthology published by Florian & Hillebrandt is the question about what perspectives Pierre Bourdieu's Theory of Practice offers for the new economic sociology, which is heavily influenced by network analysis. This new economic sociology claims to make an original, genuinely sociological contribution to the explanation of economical key issues, e.g. the formation of economic institutions or the dynamics of markets – in contrast to the older economic sociology that, under the aegis of Parsons & Smelser (*Economy and Society*, 1956), aimed at the integration of economic issues into their own social theory. The central and quite plausible argument of the newer approaches is that economic phenomena like other social phenomena are formed by socio-cultural factors, and therefore could by no means be explained only from the reductive logic of economical efficiency and the individual maximization of benefit, as the neo-classical economic theory is known to suggest. In this context the editors of the anthology specify that the aim of the volume is to explicate to what extent the economic-sociological work of Bourdieu contributes to an expansion of horizons beyond the approaches of network analysis (pp. 7-18).

To clearly establish the link to Bourdieu's research, the different essays are preceded by an empirical examination carried out by Bourdieu in the context of his studies of the real estate market, in this anthology for the first time published in German. In this examination Bourdieu takes the example of the construction industries to make clear, how economic processes are regulated by bureaucratic statutory orders. It's very interesting that the civil servants, who watch over the keeping of rules, definitely have a certain scope at their disposal for concrete interpretation of these rules and granting of exceptions, as Bourdieu documents with interviews; and the use of this scope depends again on the subjective attitudes and dispositions bundled in the individual "habitus", which the responsible officials have acquired in the course of their socialisation. With this Bourdieu clearly illustrates, that the economic practice is influenced to a high degree by non-economic factors (as for example the differing individual willingness of officials of the building and construction authority to grant exceptions). Because of this an appropriate analysis of economic conduct must include, beside the genuine economic categories, also the necessary social, cultural and political-legal aspects (Pierre Bourdieu: "Das Recht und die Umgehung des Rechts," pp.19-41).

Bourdieu's study is followed by eight essays, of which I will mention here those of Michael Florian and Frank Hillebrandt, which are entirely worth reading, as well as that of Jürgen Mackert, whose – not really convincing – criticism of Bourdieu's political statements on the spread of neoliberalism shouldn't remain without remark.

In his article Florian compares Mark Granovetter's approach of the social embeddedness of economic phenomena, established in the new economic sociology since the 1980s, with Bourdieu's theory of the social field. He reaches the conclusion that both approaches complement one another. Since Granovetter predominantly concentrates on the situational constraints and institutional restrictions on the economic freedom of decision-making, resulting from constant embedding of economic conduct in social networks made of personal relationships, he neglects – according to Florian's justifiable criticism – those macrosocial fieldstructures, which, according to Bourdieu, ensue from the unequal provisions of economic, cultural and social capital, and which find expression in the differing proportions of power and chances of action for the economic protagonists. On the other hand, as writes Florian, Bourdieu in his analysis underestimates the structure-forming power of social networks on micro- and mesosocial level. Against this background Florian's recommendation that both theory approaches with regard to the economic-sociological question of the social integration of economical practice should be combined, seems worthwhile (Michael Florian: "Ökonomie als soziale Praxis," pp.73-108).

Frank Hillebrandt, for his part, starts with an observation that the network-analyzing approaches in the newer economic sociology ask only if, but not how social networks develop in the economy. However, addressing the latter issue cannot be evaded by the economic-sociological research for long. Hillebrandt himself links the development of cooperative networks to the mechanism of non-equivalent, symbolic gift exchange. For instance, studies of the social development of structures in the transport business had shown that cooperations relevant for competition on the market develop from the already existing relations of personal trust, which in turn arose from mutual exchange of material or immaterial gifts. The reason why this point is often overlooked by the economic-sociological research lies in the identification of exchange in modern economy mostly exclusively with the rational, money-conveying exchange of equivalents. This leads to a mistaken assumption that gift exchange is irrelevant. Bourdieu's Theory of Practice could now help to resolve that problem. Since it does not try to explain the economic practice alone with the supposed non-historical logic of economic efficiency and individual maximization of benefit, but considers also the socio-cultural base of modern economy, Bourdieu's theory is apt to include not only the exchange of merchandise but also that of gifts or symbolic gestures as basic network structures generating practice-forms of the economy. To sum up, Hillebrandt's expositions are quite clear on the theoretic level, but the reader would wish to get more specific information about the kind of gifts being exchanged (Frank Hillebrandt: "Der Tausch als strukturbildende Praxisform," pp.147-168).

Jürgen Mackert deals in his article with Bourdieu's criticism of neo-liberalism. Mackert rejects among other things Bourdieu's two theses that (1) the state retires more and more from its social duties in the course or the accomplishment of the neo-liberalism, and as a result (2) the West European welfare state will be substituted by the American model. Mackert's reasons for rejecting these claims are the following. First, even today and even in a liberal market economy numerous and undeniable functions are in store for the state. Second, the conditions for political actions in the coordinated "Rhenish" and the liberal "Anglo-Saxon" capitalism are so different from each other that it would be quite impossible to speak of "homogenization" or "Americanization". Nevertheless, considering that Bourdieu does not at all maintain a general retreat of the state, but only primarily from welfare duties, and from the regulation of the economy (comp. e.g. Bourdieu 1998), then in my opinion his assertion cannot be dismissed in view of the evident cuts in social services, not only in Germany, as well as the liberalization of the job-market, the privatization of the pension-system and so on. And if one discerns in these "reforms" an outstanding sign of the American model, Bourdieu's theory of "homogenization" appears very reasonable. In this respect Mackert's criticism of Bourdieu is not convincing (Jürgen Mackert: "Die Macht des Neoliberalismus und das Schicksal des Staates," pp.196-220).

In the end, I want to also mention a quite informative article of Rainer Diaz-Bone, who goes over the great influence of Bourdieu on the French sociology, as well as the joint article of Ute Volkmann and Uwe Schimank, where both writers reveal the possibility of a link between Bourdieu's theory and the theory of social differentiation of Niklas Luhmann, giving an effective summary of, in my opinion, plausible reasons for Bourdieu's claims about the dominance of economy in modern society (Rainer Diaz-Bone: "Wirtschaftssoziologische Perspektiven nach Bourdieu in Frankreich," pp.43-71; Ute Volkmann/ Uwe Schimank: "Kapitalistische Gesellschaft," pp. 221-242).

All in all, I consider the anthology of Florian and Hillebrandt a good lead-in to the economic sociology of Bourdieu. While the collection in itself is not very innovative, it is definitely a very welcome addition to the literature that will help disseminate Pierre Bourdieu's economic-social thinking to the German-speaking audience.

Reference

Bourdieu, Pierre, 1998: Der Mythos Globalisierung und der europäische Sozialstaat. In: Pierre Bourdieu, *Gegenfeuer. Wortmeldungen im Dienste des Widerstands gegen die neoliberale Invasion.* Konstanz: UVK Universitätsverlag, S. 39-52.

Book: Whitford, Josh, 2005: *The New Old Economy: Networks, Institutions, and the Organizational Transformation of American Manufacturing.* Oxford: Oxford University Press.

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Josh Whitford's The New Old Economy explores the nature and growth of collaborative relationships between "original equipment manufacturers" (OEMs) of durable goods (e.g., automobiles and transportation equipment, machine tools, appliances) and their component suppliers in the American Upper Midwest. The book makes three invaluable contributions to economic sociology and organization studies: first, it treats "contradictory collaboration" as an increasingly common – and in all likelihood coherent – alternative to either arm's length or embedded buyer-supplier relationships; second, it traces the growth of contradictory collaboration not only to the institutional characteristics of the so-called liberal market economy but to the organizational features of the OEMs themselves; and, finally, it offers policymakers, businesspeople, and trade unionists who hope to catalyze a more productive approach to collaboration practical policy advice.

Whitford departs from the devastating crisis of American durable goods production in the late twentieth century. Over the last quarter of a century the United States economy has lost more than 6 million manufacturing jobs, and Midwestern states like Michigan, Illinois, Indiana, and Wisconsin have been particularly hard hit. While original equipment manufacturers like Ford, Caterpillar, and General Electric have embraced the gospel of "lean and mean" in an effort to forestall the crisis, and have therefore decentralized (or "outsourced") production to an army of component suppliers, they have encountered a host of problems in doing so including skill and reliability deficits on the part of the very suppliers to whom they've turned for help. OEMs are the principal sources of productive knowledge and resources, however, and their suppliers therefore find themselves in a double bind. On the one hand, their ability to attract and retain business from the OEMs depends upon their ability to overcome their skill and reliability deficits. On the other hand, their ability to overcome their skill and reliability deficits depends upon their ability to attract and retain the business of OEMs.

What is to be done? Whitford addressed the question by carrying out more than 100 interviews with OEMs and their component suppliers in Illinois and Wisconsin in 2002 and 2003 and responds by way of a running dialogue with the two leading approaches to the question: the Varieties of Capitalism approach pioneered by Peter Hall and David Soskice and the Learning by Monitoring approach associated with Charles Sabel and his collaborators. While Hall and Soskice portray decentralized production in industries marked by "incremental innovation" as incompatible with the incentives provided by the liberal market economy, and therefore anticipate the ongoing decline of durable manufacturing in the US, Sabel treats trust and supplier competence as incremental products of collaborative relationships, and therefore anticipates more salutary consequences.

Neither Hall and Soskice nor Sabel is able to account for the complexity of decentralized durable manufacturing in the Upper Midwest, however, and Whitford is therefore forced to condition – if by no means condemn – their conclusions. After all, Hall and Soskice are unable to make sense of the myriad examples of buyer-supplier collaboration revealed by Whitford's many interviews. And Sabel and his colleagues are unable to explain the persistence of hedging, deception, and guile within what are by almost any metric collaborative – and at times longstanding – relationships. In fact, Whitford finds "that the modal case of the OEM-supplier relationship is both contradictory and systematically intermediate between the arm's length and collaborative poles" (p. 31) and thereby introduces a new concept, contradictory collaboration, into the industry studies lexicon.

What are the principal characteristics of contradictory collaboration? On the one hand, OEMs help their suppliers meet their performance standards (e.g., cost, quality, and delivery) by communicating openly about the production process. Suppliers open their doors (and books) to OEM consultants and purchasing agents, and OEMs open their doors to supplier engineers in what Whitford memorably labels a "waltz" of "mutual adjustment." On the other hand, OEMs and in particular their suppliers take precautions (i.e., hedge) in light of the potential for mistrust, miscommunication, and opportunism on the part of their interlocutors. They "muddy the waters" (p. 103) with misleading or even deceptive cost information. They withhold cost savings at time 1 in order to meet new cost targets at time t + 1. And they at times forego "offers of concrete assistance from their customers for fear of compromising information" (p. 104).

The point is not simply that collaboration is contradictory but that the contradictions are costly. They not only undercut the benefits of decentralized production in the short run but threaten to turn the "virtuous circle" described by Sabel into a "vicious circle" in the long run. "Faced with bad waltzing and organizational uncertainty," argues Whitford, "suppliers have good reason for caution in the sharing of process information and of investing in new product development on the promise of business down the line. Yet this gives OEMs greater reason to treat particular subcomponents as commodities and emboldens marketeer factions within OEMs who believe that the best way to lower costs is to jump from underbidding supplier to underbidding supplier to take advantage of excess capacity in global markets" (p. 119). The likely consequences include lower supplier margins, limited investment in fixed and human capital, deteriorating buyer-supplier relationships, and the ongoing evaporation of high wage manufacturing in the Upper Midwest.

What accounts for the incomplete nature of decentralized durable goods production in the United States? While the contradictions Whitford has identified are at least in part the product of institutions and incentives found in all liberal market economies (e.g., antitrust regulations that inhibit coordination, labor laws that decentralize or disable collective bargaining, a litigious approach to dispute resolution, etc.), and therefore add credibility to Hall and Soskice's account, they are no less attributable to the organizational design of the OEMs themselves. After all, OEMs are not only plagued by the divisions and dysfunctions found in all multidivisional enterprises, including the at times incompatible goals of their purchasing and manufacturing divisions, but are deliberately designed to forestall – rather than foster – the growth of personal relationships between purchasing agents and suppliers that could admittedly encourage collaboration but could no less easily promote malfeasance. Purchasing agents are rewarded for short run cost savings regardless of their long term impact, and the rewards include promotions that inhibit the growth of enduring relationships that might otherwise facilitate the emergence of less contradictory forms of collaboration.

In short, Whitford treats interorganizational conflict as a function of intraorganizational structure and thereby brings key insights from classical organizational sociology to bear on an important process – contradictory collaboration – left unexamined by the new economic sociology. While Whitford's theoretical synthesis is long overdue, and is most certainly not to be minimized, his practical contributions are no less important. After all, Whitford concludes the book by documenting the growth of local and regional partnerships designed to foster coordinated activity in the otherwise liberal American market economy. According to Whitford, the Wisconsin Manufacturers' Development Consortium (WMDC) constitutes a prototypical example. By drawing seven large OEMs and dozens of component suppliers together with the aid of private funds and state-level industrial extension resources, he argues, the WMDC not only facilitates supplier training but underwrites the sorts of credible commitment to collaboration necessary to foster more enduring forms of learning by monitoring.

The point is not that regional partnerships are a cure-all for what ails American durable manufacturing. On the contrary, they are a small and politically embattled counterweight to the often perverse incentives engendered by the liberal market economy. But they have nonetheless received a triply important fillip from Whitford's research. First, Whitford has worked directly with the WMDC – and related institutions – to document and maximize their efficacy (p. 190, footnote 103) and his book will only further their efforts. Second, the WMDC serves as a model for regional programs elsewhere in the US (p. 146) and thereby disseminates policy recommendations developed in part through Whitford's research. And, finally, Whitford's book draws attention to (and legitimates) the WMDC's efforts and thereby encourages further and more successful replication down the road.

Ph.D. Projects in Economic Sociology

Content, Structure, and Performance Implications of Board Interlocks: The Role of Institutional Contingencies

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My dissertation examines antecedents and consequences of board interlocks. The focus of the analysis is on the moderating effects of institutional factors. By bringing the institutional perspective into the analysis of intercorporate ties I explain some of the inconsistent results of prior studies by showing how, under different institutional conditions, similar intercorporate ties are used differently and have different performance implications.

The dissertation consists of three separate but related studies. In all three studies I use data on board interlocks that I have collected for a large sample of banks and industrial companies in Russia. For cross-national comparisons I use data reported in prior studies of board interlocks in other countries. My first two studies are about institutional factors that affect how organizations use interlocks in response to resource dependencies. In the first study about inter-industry and intra-industry interlocks I analyze institutional factors that determine whether resource dependence is associated with uncertainty and whether board interlocks are used to alleviate this uncertainty. In the second study I develop and test hypotheses about the association between banks' dependence on different sources of financial capital and their positions in the network of board interlocks. The third study is focused on performance implications of ties with different parts of the state and I analyze profitability and growth of banks with representatives of different state organizations on their boards. Together these studies demonstrate that the tendency to use interlocks under conditions of resource dependence as well as performance implications of interlocks are contingent on the institutional context.

The Institutionalization of a New Financial Market: The Case of Socially Responsible Investments in France

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This dissertation aims to understand the legal, political and social mechanisms that support the institutionalization of the French market for Socially Responsible Investments (SRI). This new kind of investments appeared, in France, by the late 1990's. They aim to select assets using financial but also extra financial ratings. "Extra" means that ratings follow social, environmental or ethical criteria. French SRI has emerged thanks to the creation of an extra-financial rating agency, named Arese-Vigeo. Unlike in other countries, such as the United States, its roots are not in ethical responsibility. SRI in France try to manage assets in harmony with Sustainable Development principles. Doing so, actors of French SRI hope to generate new sources of performance, in order to create a pension funds industry.

Trying to invest responsibly creates high uncertainty. What are "responsible" investments is the main question, which actors must answer in order to institutionalize a new market. This problem is related to the funds quality. To solve that problem of quality, SRI actors are very heterogeneous. They organize relationships with different types of actors to acquire resources. Asset managers work with Unions or NGO, to acquire social or environmental information and expertise. For example, Unions have created a committee for responsible Employee Savings Plans. It selects and rewards plans with a brand. As a consequence, there is a strong collegial sociability within the field.

Because of this sociability, we created a methodology that uses both ethnography and social network analysis to study the relationships within this field. Two relationships, co-work and friendship, seemed crucial in the resource exchange and interdependency that are at stake in the institutionalization. Moreover, the mechanisms that contribute to institutionalization can be understood through legal, cultural, political and also social processes.

After highlighting those legal, cultural and political aspects, we have applied the social network analysis to focus on the social process, related to embeddedness, which shows that there is a great amount of cooperation in this market. Nevertheless, once that market will become perennial, competition is expected to start and actors to claim their domination. Friendship makes competition possible despite cooperation. But, this is a social competition. It expresses itself with informal gates, behind the openness and free access to market.

Furthermore, some financial actors have turned themselves into institutional entrepreneurs. They have linked with external actors, like Unions, and converted them to their quality vision of SRI. Today, SRI is about becoming mainstream. SRI can remain a niche or export itself to mainstream finance and turn over its ethos and techniques. French financial actors of SRI support the mainstream vision. Such a vision has effects on both products and actors. It is a regulatory process. From this new position in the networks, financial actors take this business away from the extra financial rating agencies. On the other hand, Unions are able to have a voice in the debate on pensions capitalization.

This study has two-fold implications for economic sociology. First, it helps to understand some meanings of Corporate Social Responsibility by examining the French case. Here, social responsibility is related to a technical process to generate performance. It aims to reach deep into the economy and might be the new sense that capitalism needs. Second, the case study of the French SRI market can show how a new market institutionalizes, by first postponing economic competition and substituting it with cooperation. This cooperation fulfills common interest: the market survival. But, thanks to other relationships, like friendship, competition can emerge. Those personal ties give competitive advantages that will take hold the day the market will be fully institutionalized. It respects actors' personal interests: the future domination of a new economic field.

Marketing Technologies: An Ethnographic Study of the Performative Properties of Narratives and of Accountability Relations in Hi-tech Marketing

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Technology businesses are active agents of economic and technological change. Technology marketing is often employed by corporations as a constitutive effort in shaping their position in the market with anticipations to increase profit. My thesis critically addresses the present societal and scholarly concerns with the power of marketing knowledge to shape socio-technical relations. The thesis title "Marketing Technologies" reflects two mutually implicated concerns: the everyday life in the hi-tech marketing department of a global corporation, as well as marketing knowledge in its practical and theoretical aspects. Inspired by the laboratory studies, the analysis of technology marketing in practice is based on an eighteen month long participant observation in a marketing department of a global hi-tech corporation "Virtual World".

Focusing on language, conventions and beliefs that underpin marketing in practice, the thesis provides an insight in the everyday activities of a "vertical" marketing team busy with Internet-related solutions and of marketing of an emerging RFID – radio frequency identification – technology. The thesis develops an approach to marketing as a practical activity performing and being performed in certain accountability relations. In particular, the ethnography discusses such questions as: how do marketers account for their work to others in the organisation? How can marketing power and marketing knowledge be understood as upshots of situated assessments? How do accounts of technology become deemed mutually credible to audiences of marketers, customers, and others?

The thesis advances our knowledge of processes providing for making new markets for emerging technologies. RFID technology (chips containing digital data and readers of this data) is taken as an example. The emergence of RFID is currently accompanied by promises of its capacity to dramatically change mobility patterns, and means by which patterns and trajectories can be made traceable. How do marketers go about their task to market, and to create markets for changing forms of mobility associated with RFID? The thesis shows in what sense marketing of RFID can be seen as the practical work of creating tellable RFID stories. It examines in detail how, establishing RFID as a point of reference inside the corporation to draw together resources and expertise for their own RFID project, marketers engaged in attempts at articulating a corporate RFID story to a wider set of audiences. The analysis of technology marketing in the thesis interleaves ethnographic reporting and theoretical discussions. A considerable part of the text is devoted to methodological reflections on doing ethnography in the business setting, on the constitution of the research field and to the analysis of day-to-day practice of ethnographic engagement with marketing "natives". Questions of utility and value of the study receive special attention, as do implications for marketing strategy.

From Behemoths to Subsidiaries: The Politics of Steel Sector Restructuring and Privatization in Central and Eastern Europe

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This dissertation proposes the theory of evolutionary state retrenchment as it analyzes the different trajectories of convergence on foreign capital-dominated liberal capitalism in Central and Eastern Europe (CEE). The project focuses on the politics of the convergence process in the steel sector of four countries with most dissimilar legacies in the region: Czech Republic, Poland, Romania, and Slovakia. It examines the interplay between domestic institutions and external pressures on the one hand and the state-managerial-union nexus on the other. The study entails four distinct levels of analysis: international, national, sectoral, and enterprise, and relies on process-tracing to reveal causal mechanisms underpinning observed outcomes in this economically and symbolically important sector.

The project is motivated by two puzzles encountered in the steel sector of the four country cases which are also the biggest steel producers in CEE. First, despite very different theoretical expectations, and indeed, divergent initial policy choices, the four countries converged on the same outcome as far as ownership type is concerned: they sold their steel mills to strategic foreign investors (SFIs). Second, transition leaders, namely Poland and the Czech Republic, counterintuitively sold their largest steel producers to SFIs after Slovakia and Romania which have been regarded as the transition laggards.

The argument is that the countries started the transition process with diverse structures of political competition, that is, coalitions differing in their commitment to privatization and facing political opposition of varying strength. Acting under pressure of the opposition and vested interests in the sector, the governing coalitions attempted to optimize their reelection chances by balancing their policy/reform goals on the one hand and the opportunities of engaging in rent-seeking and patronage on the other. The initial policy decisions resulted in politically-convenient partial reform: in privatization to domestic owners (in the Czech Republic and Slovakia) or in continued state ownership (in Poland and Romania). Neither choice could ensure the sector's long-term viability on world markets.

These policy choices were implemented while relying on technocratic capacity of the states in question. Technocratic capacity refers to the sum of institutional instruments at the disposal of state actors which they can use both to promote market adjustment by the enterprises and to intervene selectively in the market processes in order to obtain politically (and potentially economically) desirable outcomes. Policy implementation using the given level of state technocratic capacity produced a feedback effect, triggering different dominant external pressures in these countries (International Financial Institutions (IFIs), international financial markets, and EU) and, in turn, leading to convergence on ownership by SFIs.

Where state capacity was the lowest (Romania), the difficulty of maintaining macroeconomic stability triggered IFI involvement and the concomitant policy constraints, resulting in privatization to SFIs. Where state capacity was of medium level (Slovakia), the state was capable of averting IFI involvement but could neither command sufficient financial resources nor gain the trust of the financial actors operating on the international markets to maintain the status quo.

Finally, in countries with relatively high level of technocratic capacity (Czech Republic and Poland), the state could command the trust of international lenders, as it brought about partial restructuring and developed ingenious short-term solutions to the enterprises' financial problems. In other words, higher technocratic capacity enabled political actors to prolong partial reform by allowing them to skirt those external pressures which their counterparts with smaller technocratic capacity succumbed to.

In these cases, it was the EU prohibition of state aid to the sector in the run-up to the closure of membership negotiations which eventually pushed the governments to privatize to the SFIs. Therefore, country case studies illustrated evolutionary state retrenchment, whereby the converging trajectories of the individual countries were rooted in different domestic contexts.

Moving to the sectoral, and enterprise levels, the study examines the state-managerial-union nexus. As far as managerial behavior is concerned, the project proposes the theory of managerial prestige-maximization: even though the managers realized that in the medium and long run, the steel sector as a whole would be better off if they cooperated in the restructuring effort, without state-mandated cooperation, they preferred to pursue independent, myopic strategies. These enhanced their perceived prestige, but did not build on the strengths of particular enterprises in the sector, undermining their viability in the medium-to-long run.

The project also speaks strongly against policy recommendations of insulating decision-makers from labor pressures. Rather, it shows that autonomous, encompassing sectoral union organizations were associated with higher intensity of restructuring. Moreover, the development and strengthening of sectoral-level social dialogue contributed to calming restructuring-related tensions. The enterprise-level unions generally played a watchdog function in the post-privatization period, as they monitored the extent to which the new investors fulfilled their contractual obligations.

To trace the different convergence processes in these countries, the research for this dissertation is based not only on primary materials such as government policy papers and newspaper accounts, but also on more than one hundred open-ended interviews conducted with the main actors involved in restructuring and in privatization. These include civil servants, former ministers, sectoral and enterprise-level trade union leaders, enterprise managers, sectoral employer and industrial association representatives, and consultants.

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