economic sociology_the european electronic newsletter

11.2

Volume 11, Number 2 | March 2010

Table of Contents

http://econsoc.mpifg.de

Note from the editor

Dear reader,

This issue of the *Newsletter* opens up a non-European and non-US approach to Economic Sociology: Brazilian economic sociology. What is all the fuss about Brazil the reader may ask. The answer lies in the five papers that make up the central section of the *Newsletter*.

Economic sociology is very well represented in Brazil through a large number of universities offering lectures courses on these topics. Of course, large universities in big cities in the center of the country are very active in this respect: we could name the University of São Paulo, the Foundation Getulho Vargas in São Paulo and various universities in Rio de Janeiro. Beyond this, there are also lecture courses on this topic in other universities such as the University of Belo Horizonte, the federal University of São Carlos or the Florianopolis' Federal University of Santa Catarina. Here in May 2009 Cécile Raud-Mattedi organized the first Brazilian meeting directed to Economic Sociology (Primeiro Seminário Nacional de Sociologia Econômica). The meeting was a runaway success, with more than seventy presentations, which is a clear indication of the strength of the interest and scholarship in the country.

In the present issue the reader will find a selection of papers written by some leading Brazilian scholars. Ricardo Abramovay and his colleagues from the University of São Paulo consider how social movements and Non Governmental Organizations are shaping unusual market mechanisms, where stakeholders play an important role when corporate social-environmental responsibility is at issue in sectors such as soy, bio-fuel, beef-cattle production, and forestry. John Wilkinson from the Rural Federal University of Rio de Janeiro also considers the agrifood sector, laying emphasis on the role of social movements, social networks and (economic) conventions. Roberto Grün, from the University of São Carlos deals with the relation between financial markets and the government in a period during which important changes at the level of the federal government – President Lula's left-wing government – highlights what he calls "meta-political cultural disputes" over the role played by financial markets in the economy. Glauco Arbix examines in detail the making of laws which aim at promoting innovation in a country which is seeking to promote development as a way out of poverty. Finally, development policies are considered in a paper by Flavio Comin and Maria Cristina Vasconcelos Oliveira, in which they consider how big cities – particularly São Paulo – have a positive effect on economic development, thanks to the concentration of resources but at the expense of large geo-economic inequalities and social backlash (traffic jam, pollution, etc.). In this present issue an overview of the past, present and future of Brazilian economic sociology is missing: Cécile Raud-Mattedi had taken up the idea of writing a paper on this topic, but her untimely and tragic death prevented us from benefiting from her views. Obviously, this set of papers does not pretend to cover all the topics studied by our Brazilian colleagues – issues such as unemployment, migration and social economy will follow in the next issue. We cannot, alas, bring to the reader the flavor of the famous carnival of Rio de Janeiro. But maybe you will get some feeling for the country through the following studies on the functioning of Brazilian economic institutions, and through the innovative and illuminating research on Economic sociology produced by our colleagues.

This issue of the *Newsletter* also follows up on previous numbers. Ken Zimmerman offers a comment on Neil Fligstein's view on the financial crisis, followed by a response from the author, and Antonio Mutti emphasizes the role played by trust in the present turmoil. Then, there is a presentation of a new French journal of interest to socio-economists. Finally, as usual, the reader will find some information on recent PhDs in the domain, and three reviews of recent books.

Nicolas Milicet
milicet@phare.normalesup.org

Sidonie Naulin
Sidonie.naulin@gmail.com

Philippe Steiner
Philippe.Steiner@paris-sorbonne.fr

Economic and Agrofood Studies in Brazil: Combining Social Networks, Convention and Social Movement Approaches

By John Wilkinson

Graduate Center for Development, Agriculture and Society, Rural Federal University, Rio de Janeiro
Jhn.wlknsn@gmail.com

Introduction

Economic sociology has now become well entrenched in Brazilian social sciences, evident both in academic production – original articles, translations, bibliographical references – and institutional recognition – established courses in a range of graduate studies, a working group for a number of years within the Brazilian graduate association for social science, official funding for national events. It has also become quite diversified in its thematic concerns – relation to classical social theory, finance, technology, and of course markets – and reproduces the increasing diversity of analytical and theoretical currents within economic sociology globally.

In each country economic sociology has had a different dynamic depending on the way the various disciplines have been consolidated and the key questions which have informed academic traditions and Brazil is no exception. Political economy with a generous overture to the Marxist tradition has long been a strong influence in Brazilian social science allowing for an easy co-existence between political science, economics and sociology approaches. A further defining feature has been the strong presence of French intellectual traditions, particularly Bourdieu in anthropology and sociology. Economic sociology, therefore in Brazil has, on the one hand, to compete with alternative interdisciplinary approaches and, on the other, finds a strong stimulus in the increasing attention to French contributions within the consolidation of economic sociology globally.

The breakthrough for economic sociology in Brazil was perhaps provided by the fall out from the collapse of the Washington Consensus phase of acute liberalization. Institutions had now to come to the rescue of markets and the hitherto unquestioned hierarchy of economics was challenged with increasing confidence. Social capital and social networks became themes of both academic and policy concern and while agency and transaction costs approaches may prevail in micro level analyses they increasingly have to take on board notions of embeddedness and trust dear to economic sociology. Such concerns have been reinforced by the political legitimation of SME actors in Brazil both in the urban and the rural contexts, but particularly the latter and the Italian economic sociology of industrial districts and local development has also served as a model here.

Although originally from England and happy to see myself mentioned in the review of English Economic Sociology in an earlier number of this *Electronic Journal*, my encounter with economic sociology has been from an eminently Brazilian perspective, unsurprisingly perhaps since my academic affiliations have been in Brazil since the early '80s. As such I have been influenced by both the above formative tendencies adopting initially a political economy perspective (which, however, I first took up, it should be recognized, in England) and then engaging with a range of French contributions, although less Bourdieu and more regulation, convention and actor-network theories.

My first contact with economic sociology, however, was Granovetter's classic text on embeddedness which led in turn to a more systematic reading of his work on social networks which I adopted as an alternative to agent and transaction cost theories for my own analysis of the persistence and dynamism of local and informal agrofood markets in Brazil. A year's sabbatical in France in the early '90s gave me the opportunity of appreciating the reception of Granovetters's work within a broad range of social science traditions – regulation and convention theory, the MAUSS current, actor-network theory and cultural anthropology. In particular it opened me to the potential of convention theory for the analysis of agrofood markets as evidenced in the INRA publication *La Grande Transformation dans l´Agriculture* (1995).

More recently I had the opportunity to participate in an international research network on Fair Trade which led me to explore the consumer dimensions of markets and the way new types of social movements negotiate the producer consumer divide. My field of research, as far as economic sociology is concerned, has also been informed by the academic and policy attention given in Brazil to SME actors, particularly what has become known as the family farm sector and corresponding market and development issues.

In what follows I will present an overview of the way I see economic sociology combining the above three components – social networks, conventions/actor network and social movements - to throw new light on the dynamic of the family farm sector and the markets within which it participates.

Artisan and Small-scale Economic Actors in Agrofood

Standard economic theory has little to offer for an understanding of artisan agrofood activities in the rural context, particularly when these are no longer integrated into traditional commercial circuits but look for autonomous forms of market insertion. Small-scale is associated with the inefficient use of resources or insufficient access to these resources. For oligopoly theories, small undertakings may survive to the extent that their inefficiency can be the basis for higher than average profits for leading firms. Neo-schumpeterian approaches, on the other hand, focus on the importance of innovative small firms for technological development and the identification of market niches. Applied to the agrofood sector, however, this tends to favour newcomers into the rural areas, particularly those with urban expertise.

The "industrial districts" and "clusters" traditions provide a more adequate framework to the extent that they identify agglomeration and proximity effects which can offset the individual advantages of scale. They do not explain so well, however, the persistence of traditional forms of production where these advantages are not apparent, nor have they been as successful in identifying how to compensate for their absence. In many cases, therefore, and particularly so in developing countries the continued existence of artisan food processing activities is associated with "spurious" competitiveness deriving from a mixture of tax evasion, poverty and lack of basic sanitary and hygiene practices in contexts of low risk perception by consumers. Without theoretical "justification" these traditional activities have seem fated to go under in the face of demands to adapt to new norms and regulations on sanitary conditions and quality standards.

Social and "actor" network approaches, together with convention theory have provided key analytical tools for overcoming the limitations of the approaches indicated above. They capture both the dynamic features of markets currently occupied by artisan agrofood activities and identify the conditions for gaining and holding new markets, increasingly a precondition for survival. In today's world, however of global markets, highly concentrated retail and less interventionist State policies, the persistence of the artisan world depends increasingly on the consumer mobilisation provided by new market oriented social movements.

Markets as Social Networks

Granovetter's (1985) has justifiably become a reference for the analysis of markets through the lens of social networks. With this objective he initially reworked Polanyi's concept of embeddedness (1957) to carve out a conceptual space equidistant from what he considered the twin weaknesses of traditional social science – an oscillation between over or under-socialised conceptions of economic action. According to this view, economic activity in traditional societies was totally subsumed within broader social practices, whereas modernity is characterised by the immunization of economic activities from social contamination. Economic behaviour, therefore, is seen as either being entirely determined by inherited norms and rules which are simply internalised, or as obeying ahistorical principles of rationality whereby the economic agent is unaffected by social determinations. Although diametrically opposed, both views converge in excluding the influence of contemporary social life on economic behaviour. Social network analysis argues that economic calculation is not absent from traditional economies nor are social influences excluded from the modern day economy. In varying degrees economic calculations have always been present but they are elaborated and pursued from within social networks. The nature of such networks and the position of the actor within them should, therefore, provide the point of departure for economic analysis.

Granovetter developed his notion of networks through research on employment and concluded that most jobs do not emerge on the basis of previously defined supply and demand. Those who look for work through formal channels are precisely those who have little insertion into social networks. In fact, he argued, jobs obtained through formal channels tend to be worse paid than those through social contacts. Here, therefore, we have a classic case of the way in which the embeddedness of economic action in social networks influences the workings of the market. The idea of embeddedness in social networks is intimately related to questions of trust. The possibilities for malfeasance may be heightened by the collective trust engendered by social networks. The latter, however, with its complex mix of sanctions and mutual support provides an ideal milieu for effective collection action. As such it can explain, in a way that the transaction costs approach with its methodological individualism finds difficult, how complex economic transactions can be conducted without recourse to specialised institutions for monitoring, promoting and sanctioning.

The approach to social networks which has built on this tradition of analysis is particularly useful since it goes beyond general principles and specifies the dynamic of different types of networks and the importance of the position different actors occupy within social networks. Granovetter combines the notion of embeddedness with that of the "social construction" of markets. In the former, as we have seen, the workings of the market are filtered by existing social relations. In the case of social construction, networks are actively mobilised with a view to creating new market opportunities. Of particular importance is the strategic position some actors are able to assume to the extent that they are linked into various networks and can become the gateways connecting different actors and networks. This insight, characterised by Granovetter as "the strength of weak ties", provides an important qualification to discussions of social capital which give exclusive attention to the mobilisation of endogenous resources.

From the perspective of social networks, we can understand local artisan food production, circulation and consumption circuits as extensions of family and neighbourhood social relations. Within this framework the market as such is unproblematic since production evolves in accordance with demand. Trust in the product spills over naturally from confidence in the producer and question of hygiene and quality need no formal guarantees. Within the bounds of the local community, the product may often be unregistered but this does not prevent it acquiring a reputation for quality with opinion formers (doctors, lawyers and other professionals). Family relations, the vantage point of neighbours and personal acquaintance in the context of repeated transactions confirm reputations and consolidate loyalties making these markets relatively immune from external pressures, whether of the formal market or regulatory prescriptions. Such markets are as solid as the social networks which feed them.

The reasons which explain the persistence of local artisan food production also account for the frequent reluctance to expand activities and look for new markets. The markets coincide with the social networks in place and the actors are immersed in social circuits which replicate already existing contacts and knowledge. They exhibit strong characteristics of redundancy and an "excess of social capital". The challenge of expanding production, therefore, is not limited to the problems of managing larger-scale operations or assuming the risks of greater fixed costs but derives from the difficulty of expanding the market beyond the confines of the social network within which it is embedded.

An orthodox response would be to adapt the product to the requirements of formal commercial circuits and train producers in the new knowledge associated with these markets. Such a view presupposes that formal and long distance markets function without the intermediation of social networks, which are associated only with traditional communities. As against this a social network approach sees the development of new markets as the result of extending social networks and overcoming the limitations of closed circuits. The "strength of weak ties" concept referred to above reinforces the importance of extending networks and mobilising other social networks in support of local actors.

The social network approach has analysed the expansion of markets in the wake of the migration of its members. In his analysis of the Chinese diaspora, Granovetter shows how markets can travel across frontiers and operate at a distance on the basis of informality and trust to the extent that they are managed within the same social networks but now on an extended scale. Applications of this insight by other analysts have revealed the weight of family relations and ethnic groups in the expansion of international trade both in the past and today. Similarly within countries regional products, even when excluded from formal trading circuits, often maintain strong consumer appeal in the urban context through the presence of migrant communities.

Market embeddedness, therefore, guarantees the persistence of local markets whereas the social construction of markets becomes crucial in contexts of adaptation to new market conditions. In many regions, particularly also now in developing countries, the embeddedness of local informal markets which has long served as a natural protection is being threatened both by competition from formal markets which directly focus artisan market niches and by pressures to adapt to new hygiene and quality regulations. A simple adaptation to these demands leads to high mortality rates for small undertakings which have to assume costs disproportionate to the scale of their operations. The alternative involves defending appropriate regulatory standards for artisan activities in which the non-negotiable criteria of salubrity are distinguished from specific technical solutions favouring only one type of actor.

Markets and Values

When dealing both with the expansion of local markets and their adaptation to quality regulations, the markets as social networks approach is best complemented by actor network and convention theories. The former has focussed on the challenges of accessing distant markets without losing the values associated with proximity while the latter, in addition to this, has addressed the negotiation of a plurality of value systems governing the organization of economic activities. The great merit of convention theory is that it makes explicit the world of values hidden behind norms and techniques and identifies the debates on standards as the privileged forum for the negotiation of interests and values in today's agrofood system.

In a first step, this approach shifts the discussion from the simple identification of the interests at stake to the justification of action in terms of values. It then goes on to identify a number of coherent values systems which have informed different approaches to economic activity. The values of creativity, craft traditions, reputation, civic accountability, technical efficiency and scale economies, and market sensitivity all have their place and involve different logics of action. These logics can often be shown to be complementary and in different aspects of a large firm's activities they may be reflected in the acceptance of different work norms and conventions. There has been a tendency, however, for the twin logics of technical efficiency/scale economies and market values to overshadow and redefine other practices. In the more recent period, these values have tended to prevail in the definition of new quality and sanitary regulations, thereby threatening the survival particularly of craft traditions and local production systems. In response, as we will see below, new global social movements have emerged around the values which are in danger of being squeezed out by the dominant market/industrial paradigm.

The most important tensions in the regulation of agrofood systems have been produced by the conflict between industrial and artisan principles. For the industrialist, the organizing values are associated with efficiency expressed in unit costs achieved through scale economies. For the artisan the product quality is the result of adhering to, and evolving within, collective practices consolidated over time. The artisan has his corollary in the "craft consumer" (Campbell) just as the industrial product has its values recognised by the "time-scarce" consumer. The most notorious and well documented cases of conflicts between the industrial and artisan worlds have been in the dairy sector, particularly with regard to cheese-making. The convention approach has shown how such conflict can be negotiated to the extent that actors on both sides go beyond a simple defence of their corporative interests and justify the compatibility of their interest with the "common good". It is not appropriate to argue in favour of pasteurisation in terms of the increased scale economies it permits, or to defend untreated milk because it is responsible for the originality of the cheese taste and aroma. Both must show that the values they espouse are compatible with a higher good, namely public health and the well-being of the consumer. In this light, if alternative options are available for accomplishing this finality both industrial and artisan production may co-exist, the former adopting the downstream technology of pasteurisation and the latter intervening upstream to ensure the health of the dairy herd. Here, the often-experienced correlation between standards and standardisation, with the imposition of the values of one economic logic over all others yields to the recognition of a plurality of technical norms to the extent that they are consistent with common values in relation to public health (Valceschini, 1995; Sylvander, 1998).

Similar principles are being more broadly applied to artisan food production both in developed and developing countries with the emergence of specific legislation for micro and small-scale enterprises. In many cases such legislation is applicable only in the case of local or sub-regional markets, but in others artisan standards are compatible with participation in national and global markets. Negotiations can become particularly sensitive in the case of highly perishable products in tropical countries and are currently the subject of conflict and negotiation. In such cases, however, the simple defence of small producer interests is no longer adequate and proposals for specific regulations depend on the ability to demonstrate that public health is not at risk. On the other hand, it is clear that in many case existing regulations have adopted mass production norms without considering the viability of alternative systems.

Global Markets and New Social Movements

Artisan food production systems, as we have seen, have persisted through the resilience of social networks which have simultaneously guaranteed markets and been the basis of their expansion as urbanisation and globalisation accelerate migratory flows. On the other hand, specific regulatory systems and alternative quality recognition systems (farm product status or geographical indications) have been necessary to consolidate market presence beyond the limits of localities and related social networks. This has been possible given strong State intervention in the support of disadvantaged producers and regions and the existence of a competent public technocracy in rural development issues and food safety regulation and control. In particular, it required the consolidation of sophisticated institutional competences to recognise, implement and supervise complex collective rights related to artisan food production. Although these conditions persist in a significant number of countries, many countries and regions can no longer or have never been able to count on such public support. In yet other countries, public sector support is crucial but insufficient to promote and consolidate the artisan and local food production sector. This is particularly the case as the dominance of increasingly global markets by large-scale retail creates entry barriers for small-scale producers and even for traditional centres of artisan food production.

The globalisation of the dominant food system, however, has also seen the emergence of its counterpart in the form of new social movements mobilised around a range of increasingly convergent issues relating to the defence of artisan producers and local production systems (Brunori, 1999). If we look at these movements in the light of the different logics of action identified by convention theory we can see that they focus precisely on redefining the hierarchy of values established by the dominant food system. These include the struggles against the appropriation of biotechnology innovation within an exclusively industrial logic expressed in the movement against GMOs. This movement has led to innovation being repositioned, with considerable success, as conditional on civic accountability. They also include mobilisations to redefine the status of reputation, demanding that this be measured against the values of labour rights, as in the campaign against Wal-Mart. In their turn, artisan and local food systems are now identified with sustainability, a transversal civic concern of new social movements. Previously, artisan production was supported as a means of protecting marginalized regions on the condition that it adhered to concerns over pubic health. Today, defence of this sector is identified with global preconditions for sustainability, as the guarantor of biodiversity and protector of natural resources.

While globalisation has led to a relative shift towards ethical considerations rather than those of taste, it is increasingly through the market and not subsidies or other forms of public support that the various movements (organics, fair trade, slow food, local food markets), must achieve their objectives. This raises questions about the nature of the new political consumer movement (Micheletti, 2003, Wilkinson, 2007). This consumer movement can be seen to have three components – the activists of the social movement; a broader layer of political consumers who are the basis of current strategies towards the mainstreaming of the movement's products; and the public sector as consumer (particularly evident in fair trade products).

From a different angle, however, the social movement itself can be understood as a very effective alternative marketing machine. As a global social network in the sense of Granovetter it is able to transmit the values of the producer community directly to distant consumers. The dedicated shops of the Fair Trade movement express this dynamic perfectly. Global NGOs such as Greenpeace and movements such as Slow Food, together with nationally-based global players such as Oxfam, Global Exchange, GEPA or Altromercato are able to activate the values of reputation and have now acquired brand status which can substitute for formal qualification systems. At the same time, the campaigning base of the movement serves as a publicity machine popularising the movement's products and amplifying market penetration among the political consumers identified above. And finally, the political wings of these movements can be effective in the promotion of a range of public initiatives at global, national and local levels.

These new market oriented social movements, therefore, are ideally placed to defend the interests of small producer communities, given their ability to operate as global networks, their media oriented politics, and their increasingly "global brand" reputations. As we have seen, through their campaigns they continually grow the market on the one hand and pressurise Governments to take initiatives on the other. This in turn contributes to popularising the issues and broadening the political consumer base. There is no guarantee, that the combined "carrot and stick" of oligopoly power and corporate social responsibility will not ensure large-scale retail's domestication of these markets (Fonte, 2006). However these movements show great aplomb in outflanking such strategies, continuously innovating in product range and market positioning.

Conclusion

Social network analysis provided an initial and very effective response to orthodox economic theories which condemned the artisan producer to increasing marginalisation. In addition to accounting for the persistence of local markets it was able to highlight the consolidation of long distance circuits as these networks themselves expanded with rural-urban and global migration. Actor network and convention theories, in their turn, have allowed for an understanding of the conditions for extending these markets beyond social networks anchoring them in the recognition of plural economic logics and formalised systems of quality recognition. Such systems, however, show themselves vulnerable to assimilation within dominant circuits particularly under the impact of globalisation which has simultaneously weakened public support structures and strengthening coordination and regulation setting by mainstream private actors. In these conditions, analysis of the increasingly central role of global social movements in the definition and dynamics of markets becomes key to understanding the continued vitality of small scale artisan production, now within the broader justification of social justice and sustainability, which is providing a permanent challenge to the hegemony of transnational food corporations and large-scale retail. We are currently exploring how the major agricultural commodity markets are also now being redefined by the dynamic of the global networks and social movements initially mobilized around the construction of niche markets for small-scale and artisan production.

These themes have been developed in the National Research Council (CNPq) research group: Markets, Networks and Values *under my coordination at the Graduate Centre for Development, Agriculture and Society, Federal Rural University, Rio de Janeiro. To date theses, dissertations and articles have been produced on organics, fair trade, sustainable production, indigenous products, transgenics, geographical indications. Our current concern is to integrate the dynamics of consumption within this framework and analyses the way in which networks, the negotiation of values and social movements are now central to all forms of market construction in the agrofood system.*

John Wilkinson *is Associate Professor in Economic Sociology and Agrofood Systems at the Graduate Centre for Development, Agriculture and Society (CPDA), Federal Rural University, Rio de Janeiro, Brazil. He has been research fellow at the FAST Programme of the European Commission; visiting researcher at INRA,Paris, at University College, London, and at the University of Santa Cruz, California, with post-doctoral studies in economic sociology at University of Paris XIII. He is also currently visiting professor at King's College, London. He has published widely on agrofood from an economic sociology perspective with a particular interest in the application of convention theory to agrofood markets. He is currently focused on the role of social movements in market construction.*

References

Allaire, G./R. Boyer, 1995: *La Grande Transformation dans l' Agriculture*. Paris: INRA/Economica.

Brunori, G., 1999: *Alternative Trade or Market Fragmentation. Food Circuits and Social Movements*. Pisa: mimeo.

Campbell, Colin, 2005: The craft consumer. Culture, craft and consumption in a postmodern society. In: *Journal of Consumer Culture, vol 5.*

Fonte, M., 2006: Slow Food's Presidia: What Do Small Producers Do with Big Retailers? In: T. Marsden/J. Murdoch, (eds), *Between the Local and the Global*. Amsterdam: Elsevier.

Granovetter, M., 1973: The Strength of Weak Ties. In: *American Journal of Sociology, 78.*

Granovetter, M., 1974: *Getting a Job.* Chicago: CUP.

Granovetter, M., 1985: Economic Action and Social Structure: the Problem of Embeddedness. In: *American Journal of Sociology, 91*.

Granovetter, M./R. Swedberg, 1992: *The Sociology of Economic Life.* Boulder: Westview Press.

Letablier, M. T./C. Delfosse, 1995: Genèse d´une Convention de Qualité. In: G. Allaire/R. Boyer, *La Grande Transformation de l'Agriculture.* Paris: INRA.

Micheletti, M., 2003: *Political Virtue and Shopping. Individuals, Consumerism and Collective Action.* Basingstoke: Palgrave Macmillan.

Polanyi, K., 1957: *The Great Transformation.* New York.

Sylvander, B., 1998: Raw Milk or Not Raw Milk? Procedural Working Out of a Local Agreement and Innovation Systems. In: *Workshop on systems and trajectories of agricultural innovation.* Berkeley: Berkeley University Press.

Sylvander, B., 1995: Conventions de qualité, concurrence et cooperation: le cas du 'Label Rouge' dans la filière volailles. In: Allaire, G./ R. Boyer, *La Grande Transformation de l'Agriculture.* Paris: INRA.

Valceschini, E., 1995: Entreprises et pouvoirs publiques face a la qualité. In: Allaire, G./R. Boyer, *La Grande Transformation de l'Agriculture.* Paris: INRA.

Wilkinson, J., 1997: A New Paradigm for Economic Analysis: Recent Convergences in French Social Science. In: *Economy and Society, vol 26, no.3, August,* 335-339.

Wilkinson, J., 2007: Fair Trade: Dynamic and Dilemmas of a Consumer Oriented Global Social Movement. In: *Journal of Consumer Policy, vol. 30, no.3, September,* 219-239.

Wilkinson, J./G. Mascarenhas, 2007: The Making of the Fair Trade Movement in the South: the Brazilian Case. In: L. Raynolds/ D. Murray/J. Wilkinson (eds), *Fair Trade: the Challenges of Transforming Globalization.* London: Routledge.

Wilkinson, J./G. Mascarenhas, 2007: Southern Social Movements and Fair Trade. In: *Fair Trade: the Challenges of Transforming Globalization.* London: Routledge.

Wilkinson, J., 2008: Global Value Chains and Networks in Dialogue with Consumption and Social Movements. In: *International Journal of Technological Learning, Innovation and Development, vol. 1*, 536 - 557.

For a Brazilian Sociology of Finance

By Roberto Grün

Universidade Federal de São Carlos, Brazil,
drgr@power.ufscar.br

The peculiar conditions of current Brazilian society led to a two-pronged sociology of finance. It is a recent phenomenon that can be traced to the last seven years of a left-wing federal government, with many of its members recruited in unions and social movements. The fact that these groups had to create a specific niche among the elites and in the field of power amplified some features of finance in contemporary societies and makes the Brazilian case particularly interesting. First of all, the local development of the more common financial tools of this period, which was stronger than in other countries, shows the heteronomous character of these instruments and their social plasticity. Second, the relation itself between finance and politics: the financial sector proves to be dependent on the "meta-political" cultural disputes that circumscribe the area of discussions and solutions to problems and legal matters. I believe that the Brazilian case, by showing the importance of the cultural dispute throughout society, and using it in a way to explain the dynamics of the financial sector, shows the pertinence, amplitude, and irreducibility of its sociological analysis.

Corporate governance is the main tool through which many sectors of society got used to, and accepted, the principles of the financial worldview. It's been in Brazil for around 15 years now, and its chronology has a strong heuristic power, because it illuminates how financial supremacy is installed. It is produced through a chain of convergences and more or less explicit agreements between the many elites of the country. This phenomenon creates a social and cultural environment that is auspicious for the acceptance of prejudgments emanating from the financial sector. During this period, corporate governance was consolidating itself as the most legitimate mechanism of management, not only in companies, but also in other organizations. For this to happen, its contents were being altered to incorporate sensibilities and interests of diverse groups, but without losing the essential feature of representing the convergence between them, nor of signifying the primacy of financial points of view over any other considerations. This means that through corporate governance, not only diverse groups of agents were occupying places in the field of power, but also that this space was continuously enriched through the incorporation of some sensibilities and interests of the newly-arrived. It is, therefore, licit to conclude that, through corporate governance, economic order based on the supremacy of finance becomes a new form of domination, much more complex and extensive than in past situations, especially for a country that was leaving a military dictatorship that raised difficulties for the representation of many parts of society.

At first, the concept is brought to Brazil by lawyers and financiers recently-arrived from scholarships and work experiences in the United States. These "youngsters", in relation to the average standards of occupation of important positions in their professional areas, used corporate governance as a sort of commercial fund which is, at once, commercial and a form of identity. They act differently and are implicitly more modern in relation to the traditional model of work in their professions, all the while exhibiting corporate governance as a merchandise that may be sold as professional service in the sphere of social law or in the financial market itself (Grün 2003).

The first attempt to install corporate governance, promoted by the "young professionals", achieved only partial results. It influenced many important groups of economic, political, and cultural intermediaries, who became followers of corporate governance and becomes the big instrument through which the Brazilian capital markets would grow even more, raising their business volumes and solving a secular problem of the Brazilian economy: the difficulty of Brazilian companies in getting external financing for its operations and for the expansion at the level correspondent to a country "of continental size".

An important event was the resistance of public opinion in relation to privatization of state companies in telecommunications and energy: the Fernando Henrique Cardoso's (FHC) government (1995-2002) opted to promote them through the sale of "corporate control", which meant there should have been more resources for the Treasury in exchange for control of the company to the group that acquired the "block" in auctions. The attempt by politicians connected to that government of gaining favorable public opinion was to clamor for a "popular capitalism", where, instead of "corporate control", stocks from state companies should be sold indistinctly to a public composed predominantly by small shareholders, identified as the "people". After the first round of privatizations, this conception became predominant among politicians, but not among monetary authorities, creating an impasse and freezing subsequent stages of the privatization program. The way politicians used to make this clear to public opinion was through their mass support to a new social legislation contemplating "good corporate governance"(Teixeira 19.12.1999).

But the initiatives of the first group of supporters, though swelled by politicians, collided with traditional Brazilian entrepreneurs. In a still unclear episode, Fernando Henrique Cardoso's (FHC) government vetoed the main points of the new law, which then lost most of its efficiency in transforming capital markets and companies. While the defenders of corporate governance acted publicly in a mobilizing way akin to that of social movements, their traditionalist adversaries preferred, or could only opt for, behind the scenes maneuverings, since their cause did not have the backing of the media or "public opinion" (Mattos 20.09.2001).

Sociologically, the response to the vetoes was very interesting. In the strictly political sphere, many agents linked to then-candidate Lula attempted to present the issue again. They came from, or were close to, state companies' union workers who maintain pension funds and had become the new proselytes of corporate governance. At the time (beginning of the 21st century), Lula's group envisioned the opportunity of victory in the presidential elections to be ever nearer. Concomitantly, the reaction of financial markets to the ever closer arrival of the left in power was to trigger speculation against the Brazilian currency, in the same manner that had been done with the Argentine peso, which caused the resignation of the recently-elected president, Fernando de La Rua. Through corporate governance, Lula's followers declared their politics of harmonizing with the world of finance and establishing a channel of communication with that sector, contributing to diminish the mistrust over actions of the probable new government (Allen 19.10.2002).

An initial sociological analysis shows that the actors from the unions and from the political world decisively held the flags of "transparency", "rights of minorities", and "stockholders' democracy". Therefore, a discourse which seemed totally opportunistic in the mouths of professional lawyers and economists, of bourgeois and aristocratic origin and manners, became more believable coming from the mouths of those recently-arrived to the financial world. The flags, not very well understood when formulated in a "technical" manner by financiers, became clearer and more attractive when invoked in the civic discourses of union leaders close to Lula. It is not a coincidence that, when coming from Lula and his supporters, stock investments in general began to be called "the sacred savings of the workers"(Batista 29.05.2003). In time, and considering that the new government came from the left and had to justify themselves to their base, the strengthening of ideas contained in corporate governance end up generalizing the issue and the actors start to define their mission as "civilizing Brazilian wild capitalism" (Grün 2005). Therein, it is interesting to notice the chronology regarding the directors of the pension funds. During the FHC government, I made a research on the directors of the big pension funds of the country and found actors who did their best to define themselves, and be accepted, as professional financiers (Grün 2003). Seven years later, during the Lula government, Jardim goes down the same path and finds the same actors identifying themselves in a completely different manner (Jardim 2007). As if wearing the model drawn up by Polanyi, directors of pension funds in Lula's government define themselves as a, at once, economic and political force that is necessary to put the brakes on the anti-social tendencies of Brazilian capitalists and to lead popular savings on the path to economic development, which they believe was blocked during the FHC era. Initially during the new government, these actors believe economic development rhymes with income distribution and more and better jobs (Grün 2003). Later on, the meaning of corporate governance is amplified even more, including social responsibility and environmental sustainability. In this new variation, union leaders and pension fund directors converge with directors of NGOs anointed by the World Social Forum of Porto Alegre, and give to Brazilian corporate governance features that are even more impregnated with content that is far away from what we usually classify as the economic sphere of society (Grün 2005).

Many developments mark the new agenda of agents coming out of civil society. The first one is the advent of social and entrepreneurial responsibility. The issue goes into the agenda in the period of doubts arising from Enron's débâcle. Social responsibility would be the best way of containing the "moral hazard". A company that rewards its collaborators' virtue will encourage their ethical behavior also in the corporate sphere. The issue is quickly appropriated and amplified by agents linked to NGOs, who are transformed into experts of the new corporate sector and also guarantors of the good intentions of entrepreneurs. Next, an analogous movement occurs in the sphere of environmental preoccupations. With a left-wing federal government in the background, these movements gain scope because they are greatly encouraged in the sphere of execution in the public policies' agencies and in the sphere of legislation when regulating their actions. In empirical terms, many linking points were created among the once-distant sectors of finance and social and environmental critiques. To make this new force viable, companies and consulting firms create a new layer of agents that manage the social and environmental issues. (Sartore 2006). Concomitantly, the finance sector creates a very active subsector of "ethical" investments (Sartore 2009). In an intricate game of attraction and repulsion with actors not from the world of business, the new professionals create a series of instruments of reproduction of their occupation and of measuring and fulfillment of the preoccupations that produced them (Camba 30.03.2005). Among other things, this social differentiation contributes to the establishment and institutionalization of the new issues in the entrepreneurial and financial sectors. Subsequently, we observe an important change in the regular behavior of Brazilian companies and entrepreneurs. They now see themselves obliged to deal with actions of social and environmental impact, but with more care in avoiding developments which may be condemned by the new agents situated in the sphere of monitoring of the consequences of economic activity.

The more general sociological result is the rapid "complexification" of Brazilian capitalism. On the one hand, the issue dear to (Bourdieu 1989): the circuits of legitimacy are amplified right in front of us. Any relevant issue to be discussed has to go through the new intermediaries and, at least, receive their recognition. Difficulties are raised, or they even become impossible, for authoritarian actions that were typical of previous moments in the sector, in which capitalists and government were freer. This holds true in the social and environmental spheres, but also in specifically social issues. Many recent cases demonstrate this new complexity. Management of the biggest sugar cane-energy company tried to dilute the worth of the minority stocks through a formally correct operation in the New York stock exchange. They were criticized by the whole spectrum of economic analysts and were obliged to "respect the rights of minorities"(Camba 24.09.2007). Also, the use of child or slave labor, or of environmentally harmful raw materials in the productive chains of big companies, like in the iron ore sector, are rapidly identified and generate a lot of repercussion in the public sphere (Social, June 2004).

An initial analysis of Brazilian financialization through corporate governance may be considered excessively biased, since this group of mechanisms is, since its inception, a form of compromise between the financial order and other preoccupations of society (Ocasio 2005). To control this bias, we begin to observe another big group of financial tools gathered around the management of private equity funds. The analysis and, in particular, the chronology of the recent development of private equity funds in Brazil allows us to suggest the greater generalness of the "social" character of Brazilian financialization (Grün 2009).

At first, these funds were the financial solution found during FHC's government to capitalize the consortiums that were going to participate in the privatization of state companies. Through them, companies were created for specific purposes, led by the new investment bankers and capitalized by the pension funds. This way, the new financial capitalists controlled the recently-privatized companies stopping directors of pension funds from introducing heteronomous logics in this issue.

In the FHC era, direct governmental pressure forced the funds to accept this not so interesting association (Dualibi 26.04.2001). Not coincidentally, pension funds maintained a resistance to private equity during the beginning of the Lula government (Fortunato 08.08.2003). In this original model, closer to the more common format of international private funds, this type of investment did not grow quickly in Brazil. But afterwards, new financiers start to propose private equity funds with governance clauses that become ever more attractive to pension funds, leading to an end to substantial opposition by 2007 (Santos 18.06.2007; Diniz 2003). The pension funds begin to invest in private equity. At the same time, the financial arm of the federal government, the branch BNDESpar of the Banco Nacional de Desenvolvimento Econômico e Social (Brazil's government bank for development and investment), begins to encourage emission and to systematically acquire shares of this type in the enterprises it wanted to support (Travaglini 11.02.2008). This type of investment begins to grow exponentially, becoming as important a way of capitalizing companies as the IPOs organized in the Stock Exchange. In the beginning, this new tendency was created and led by new financiers that have a common feature that distinguishes them and offers hints on their standards of action. They are financial actors who had important experience in the governmental sector, in posts that involved important political responsibilities. Among them, we may point out Armínio Fraga, who was president of the Brazilian Central Bank during FHC's second term (1999-2002), and Antonio Kandir, secretary of economic policy during the Collor government (1989-91) and federal representative until 2002. By occupying these posts, they developed the sense, abilities, and social capital necessary to present this modified tool. And once this new type has succeeded, isomorphism kicks in and other "players" copy it effectively, which, in turn, increases the market for the abilities of these new actors coming from the sector of social and environmental critique.

There are two important aspects of this quick transmutation. On the one hand, the prevalent meaning for the "concept" of private equity fund in Brazil quickly associated this tool positively to the idea of corporate governance and "socially responsible" investment. Obviously, this meaning is different, and in many aspects the complete opposite, to the one prevalent in contemporary America, showing an unexpected independence of the production of meaning in the Brazilian financial field in relation to the country from where our financiers have gotten their inspiration from. On the other hand, we notice that this tendency, arising in a section of the financial sector in which normally one would not expect any heteronomy, signals to a specific agreement between the government coming from the left-wing of the Brazilian political spectrum, and the national and international background whose main framing is the omnipresence of financial supremacy (Grün 2009; Grün 2009).

The social and cultural area of financial supremacy also induces a type of social action, both from the government and from NGOs, in which a lot of space is given to initiatives that end up reinforcing the prevalence of its principles. Actions like the "bankarization" of the underprivileged stand out. Previously, the Brazilian banking system refused to open accounts for low-income citizens. In the new setting, many actions are promoted to include this population, like opening up checking accounts attached to many government agencies or with strong popular attendance, like the national Post Office agencies, that are omnipresent in the whole territory, and the public lottery system. The concession of formal loans to the low-income population grows a lot with this. In this process, not only does popular credit gain increased security, as they are now confined to the formal system, but there is also exponential growth in the concession of small loans with lower rates than those charged by loan-sharks which used to give these loans out. At the same time, we see the dissemination of programs of financial education for diverse segments of society, including the appearance of Brazilian "gurus" similar to the international trend (Leite 2009; Müller 2009).

An important consequence of this financial supremacy is that Brazil still has higher interest rates than the world average. The cultural substratum that allows mainstream economists, financiers, and economic authorities to justify this situation is that "in Brazil, interest rates are naturally higher, since society prefers anomie than economic logic". Brazilian people don't deal well with contracts and even the authorities, who should make people fulfill their obligations, don't follow through on their obligations. The consequence of this is that investors are obliged to charge a lot for the use of their money, since in Brazil they run more risks than in other countries. This negative philosophical anthropology is constantly reiterated in many manifestations, going beyond the economic sphere. And in the sphere of economic theory, it receives the name of "thesis of juridical insecurity", which is constantly repeated again and again whenever some sector of society complains of the high interest rates (Grün 2007).

How do the supporters of a left-wing government react to this favorable situation to rentiers and, therefore, unfavorable to workers? The first point is that pension funds are highly favored by high interest rates, since this makes it easier for them to reach their financial targets. Besides, in the past, the left-wing politically popular bases were extremely penalized by financial informality, which contrasts to the current situation, still bad for international standards, but much better than the experiences of the recent past. This way, a justifiable subsector for the new political agents within financial supremacy is created, characterized by its role of "tamer" of the Brazilian capitalist anti-social tendencies (Grün 2009).

In sum, the financial arena became the legitimate space through which struggles occur and, not by chance, it is within this context that agents of the unions and social policies find a main enemy that reinforces the self-image they have created in the last few years. That is precisely the case of banker Daniel Dantas, who established himself in the early 1990s and began his controversial path in the process of privatization of state companies that occurred soon after. For Lula's followers, he became the incarnation of wild capitalism that must be combated without rest, while for the followers of the process of privatization conducted by Cardoso, he became the best example of a keen and modern entrepreneur (Peña 22.09.2005).

The cultural war between both poles had various episodes in the last few years, some of them very interesting for the sociology of finance. The erection of the public personage of Daniel Dantas as a bifrontal modern totem is an excellent clue for the study of the cultural dynamic of the time and place we're studying. It shows the symbolization of the proposed social order of finance and also the ghosts it raises. And one of the most precious empirical materials for this analysis became public through Dantas' deposition in a federal parliamentary committee that was investigating a scandal on financing of political campaigns (Senate of Brazil, 21.09.2005). In the excited climate of political scandals, the inquisition took more than 8 hours and was televised in its entirety on national network. While Congressmen that were supporters of the financial order during the Cardoso period defended Dantas, those linked to Lula's government, especially representatives with a past in unions which handled pension funds (banks, oil, telephone), attacked Dantas and blamed him for all economic and political infirmities of the recent past. We can clearly observe a late reappearance of the "plutocrat" figure, which was so frequent in the years before the Second World War. In this specific situation, the financier is obliged to publicly explain his conduct and justify his privileges. And, initially, we see an interesting display on what financiers believe should be the necessary social and economic order for a rise in efficiency for governments and companies in the country and for an improvement of the situation of its citizens. Next, a long rhetorical fencing between Dantas and the supporters of "social capitalism" that are close to Lula. And maybe the most interesting point: the struggle, at once economic, cultural, and political, was public, in one of these rare moments in which society's attention is directed to the abstract issues of social governance (Grün 2006; Grün 2007).

It is very interesting to observe that after this undressing of Dantas and of financial reasoning, there were consequences on this sector. The first of them is the appearance of our exotic private equity funds filled with corporate governance clauses in the amplified way we described above. And, of course, the cultural struggle that involves financial supremacy continued after 2005. Two hot moments may be highlighted. The first one is the electoral dispute for the presidency in 2006, in which Lula ran for a second term against Alckmin, the candidate from FHC's party. The dispute over the process of privatization led by Cardoso was reignited here, and we observe an important cultural change, in which society seems to have recognized the negative consequences as more important than the positive consequences. In this climate, Lula presents the need to renew the principle of state planning, which had practically disappeared during Cardoso's period and was very limited in Lula's first term. Prior attempts were blocked by the barrage of criticisms in the press, academia, and political opposition. But in the climate of popular participation triggered by the elections, the cultural possibilities had significantly shifted in favor of the idea of planning and against its opposite – the spontaneous coordination through a system of prices gauged by the market. Orthodox economists, who used to be sovereign in the public debate, can quickly feel the wind of de-legitimation, and we see a quick change in the area of arguments that can be made and policies of the State that can be legitimately debated (Lamucci 24.10.2006; Grün 2008).

The second big moment was the debate on the consequences of the recent international financial crisis on the Brazilian economy. The national private banks quickly shored-up their credit offers and the international banks' branches practically ended these operations in Brazil. In this setting, state banks increased their portfolios in an unprecedented scale, representing 40% of all banking credit given in Brazil. On the other hand, in the climate of the crisis, the private banks accelerated a process of fusions and incorporations that is normally combated by industrialists and government, who believe that concentration of credit is prejudicial to the economy, especially because it makes it easier for bankers to maintain high interest rates. While writing this, the dispute continues and should be stirred up in the next presidential elections of October 2010. The federal government has used all the weapons and legitimacy it reached in the last few years to lower the cost of money in Brazil. Even with no legitimacy, bankers insist on the old argument that interest rates in Brazilian society are "naturally high".

The outcome of the struggle is still not clear. I try to analyze the first stage of this debate in (Grün forthcoming). But we can say that this sociology of finance caused by the Brazilian situation helps make clear that it is necessary to keep in mind the limits and forms of autonomy of the finance sphere, especially to stop sociology from being led to a type of financial determinism or catastrophism.

Roberto Grün *is Associate Professor at the Federal University of São Carlos and researcher at NESEFI (Study Group on Economic and Financial Sociology). His research focuses on corporate governance, economic sociology of finances, organizational innovations and sociology of work.*

References

Allen, J., 19.10.2002: *Deputado defende maiores mudanças na Lei das S.As.* O Estado de São Paulo.

Batista, R., 29.5.2003: Lula defende expansão da poupança pela via dos fundos de pensão. In: *Valor Econômico*.

Bourdieu, P., 1989: *La noblesse d'Etat: Grandes Ecoles et Esprit de Corps.*

Camba, D., 24.9.2007: Cosan sente o gosto amargo da sabatina. In: *Valor Econômico*.

Camba, D., 30.3.2005: O que é ser socialmente responsável?: Entidades e empresas travam batalha para definir critérios que deixariam ações de fora do Índice de Sustentabilidade em preparação pela bolsa. In: *Valor Econômico*.

Diniz, D., 2003: Private Equity e Venture Capital - O Que Falta Para Esse Mercado Decolar? In: *Revista Fundos de Pensão, 284*

Dualibi, J., 26.4.2001: Ex-ministro Mendonça de Barros depõe na Justiça e diz que escuta serviu a vencedor no leilão da Telebrás: Mendonça liga ex-diretor do BB a grampo. In: *Folha de São Paulo*: A13.

Fortunato, D. C./P. Fortunato, 8.8.2003: Fundos de pensão divergem sobre investimento em private equity: Pimentel, presidente da Abrapp, defende investimentos de menor risco para os fundos de pensão. In: *Valor Econômico*.

Grün, R., 2003: Atores e ações na construção da governança corporativa brasileira. In: *Revista Brasileira de Ciências Sociais 18*: 139-161.

Grün, R., 2003: Fundos de pensão no Brasil do final do século XX: guerra cultural, modelos de capitalismo e os destinos das classes médias. In: *Mana 9(2)*: 7-38.

Grün, R., 2005: Convergência das elites e inovações financeiras: a governança corporativa no Brasil. In: *Revista Brasileira de Ciências Sociais 20*: 67-90.

Grün, R., 2006: Escândalos, marolas e mudanças: para uma sociologia da transformação simbólica. In: *Núcleo de estudos em Sociologia econômica e das finanças da UFScar*: 32.

Grün, R., 2007: Da plutocracia à dominação do capital financeiro. In: *Revista brasiliera de Ciências Sociais 65*: 85-107.

Grün, R., 2007: Decifra-me ou te devoro! As finanças e a sociedade brasileira. In: *Mana 13*: 381-410.

Grün, R., 2008: Guerra cultural e transformações sociais: as eleições presidenciais de 2006 e a *blogosfera*. In: *Sociedade e Estado 23*: 621-666.

Grün, R., 2009: Financeirização de esquerda? Frutos inesperados no Brasil do século XXI. In: *Tempo Social 21*: 61-91.

Grün, R., 2009: Le Brésil et les Brésiliens dans la globalisation financière. In: *Cahiers de la recherche sur l'éducation et les savoirs, special issue* 2/June 2009.

Grün , R., (forthcoming): A crise financeira, a guerra cultural e as surpreendentes transformações do espaço econômico brasileiro em 2009. In: Dados.

Jardim, M., 2007: *Entre a solidariedade e o risco: sindicatos e fundos de pensão em tempos de Governo Lula.* Programa de Pós-Graduação em Ciências Sociais. São Carlos, Universidade Federal de São Carlos. Tese de doutorado: 397.

Lamucci, S., 24.10.2006: Agenda liberal afugenta presidenciáveis. In: Valor Econômico.

Leite, E. S., 2009: Finanças pessoais, dinheiro e promessas exuberantes. In: *Seminário Nacional de Sociologia Econômica: GT 3: Dinheiro, finanças e cultura*.

Mattos, M., 20.9.2001: Lei das S.A. é aprovada e já se negociam vetos à proteção de minoritários. In: *Valor Econômico*.

Müller, L., 2009: *Então eu fui à luta!*: repensando as representações e práticas econômicas de grupos populares a partir de uma trajetória de ascensão social. In: *Politica & Sociedade 8*: 145-171.

Observatorio Social, June 2004: Dossier O drama dos carvoeiros; A responsabilidade das siderúrgicas. A campanha para a erradicação Trabalho Escravo No Brasil. In: *Observatório Socialem Revista (6).*

Ocasio, J. Joseph, 2005: Cultural adaptation and institutional change: The evolution of vocabularies of corporate governance, 1972–2003. In: *Poetics* 33(3-4).

Peña, B., 22.9.2005: Deputados e senadores trocam tapas e empurrões. In: *O Globo*, Rio de Janeiro.

Santos, C., 18.6.2007: Previ tem nova estratégia para seu private equity. In: *Valor Econômico*.

Sartore, M., 2009: *Um esboço sobre os conselhos dos indicadores de sustentabilidade nos mercados financeiros.* Texto apresentado no I Congresso Nacional de Sociologia Econômica.

Sartore, M., 2006: *A Insercão Da Responsabilidade Social Do Setor Bancário No Contexto Da Governança Corporativa. PPG-EP/UFSCar.* São Carlos, Universidade Federal de São Carlos. Dissertação de mestrado.

Senate of Brazil, Text presented on 21.9.2005:. Depoimento de Daniel Dantas à Comissão Parlamentar Mista de Inquérito sobre a compra de votos.

Observatorio Social (junho 2004). Dossier O drama dos carvoeiros; A responsabilidade das siderúrgicas. A campanha para a erradicação Trabalho Escravo No Brasil. In: *Observatório SOCIAL EM Revista (6).*

Teixeira, A., 19.12.1999: Base governista é contra modelo de privatização: Para integrantes da bancada do PSDB, recursos obtidos não reduziram dívida pública. In: *O Estado de São Paulo*.

Travaglini, C. V./F. Travaglini, 11.02.2008: Fundos de pensão já têm R$ 7 bi em *private equity*. In: *Valor Econômico*.

Innovation and the Development Agenda

By Glauco Arbix

University of São Paulo, garbix@usp.br

At the starting point of this essay are some of the recent developments implemented in Brazil to structure a more integrated and coherent encouragement of innovation in the economy. Instruments such as the Sector Funds, created in the late 90's and the Law of Goods (Lei de Bem) (Number 11.196/2005) and Innovation Law (Number 10.973/2004), adopted in the wake of the Policy of Industrial Technology and Foreign Trade (PITCE-- 2004) play an important role in building an environment that encourages innovation. In open contrast with the instruments available at the end of the developmentalism cycle, Brazilian companies can have access to (i) innovative tax incentive for R & D similar to that of advanced countries, automatic and with considerable reduction of bureaucratic procedures, (ii) a system of subsidies for projects aimed at technological development, (iii) subsidies to place researchers in companies, (iv) funding programs for innovation venture capital, (v) legal framework more conducive to the interaction between universities and companies.

When compared with the past, progress in the terms of establishing and facilitating links between generation, accumulation of knowledge and innovation is clear and obvious. In terms of the future, there is still a long way to go, either with regard to creating new and improving existing instruments, or laying the roots of corporate culture of innovation by the incorporation by public institutions and universities to conduct systematic search for interactions and synergies with the economic agents. An environment friendly to innovation that a modern economy seeks is marked by the confluence of knowledge, exchange of skills and diversity of sources, public and private. To release an enterprise's potential, the process of planning, while important, only partially accounts for success. Reflection on the innovation agenda, therefore, points to the search for new syntheses between the public and private sectors in Brazil, far from the protectionist "stateism" and market fundamentalism that has so many times marked our history.

This article explores in five sections the following points:

- the recent changes of the development agenda in Brazil,
- innovation, basic and company research,
- new challenges,
- the transition to an economy based on innovation.

New Directions in Brazil

Traditionally, Brazilian literature on the subject of innovation was strongly associated with technological development, seen as one of the pillars of competitiveness of a country. Only more recently, technological potential began to be considered in relation with companies, their investments and competitive strategies1.

It is important to remember that after a cycle of industrialization and accelerated growth of almost forty years, Brazil experienced a long period of macroeconomic instability, which significantly influenced the very agenda of government, academia and business. In a certain sense, the macroeconomic debate that characterized the country in the 80's and part of the 90's, required the development of analytical techniques in areas farther from the debate on innovation than many countries. At the same time, the lack of accurate information about the innovative activities in enterprises in this period also limited the research work that might suggest innovation as generator of new dynamics in the economy.

The change of perspective, however, would arrive in 2003 and 2004, with the announcement by the federal government's Policy of Industrial, Technological and Foreign Trade Policy (PITCE), structured around innovation. The emergence of PITCE stressed the need for rapid advancements in constructing a long-term view on the limits and development of Brazilian industry.

Several studies have contributed2 and begin to reveal that the sustainability of Brazilian economic growth in the medium and long term is closely linked to utilization and knowledge generation, as well as the ability to transform knowledge into technological innovation.

It is true that part of the technological innovation of firms in developing countries will be achieved through purchase of capital goods, often imported from developed countries. However, the generality of this argument may mask real business progress and specific features of the dynamics of technological absorption in Brazil.

Given the characteristics of the Brazilian productive arena and the specific significance that the knowledge-intensive activities have in the economy, research showed that investment in R&D generates increased investment in physical capital and accelerated growth of firms. This is a key issue for countries like ours that want to migrate to more advanced positions of economic and social development.

Several estimates done for Brazil[3] revealed that investment in firms' R&D generates a higher investment rate in fixed assets, a clear reversal of the traditional causality. From the standpoint of public policies, to prove this hypothesis is especially important because it signals to governments that the incentive to innovate at enterprises, to invest in R&D, in product differentiation and processes, and in diversification of organizational strategies and business parts are essential pieces in increasing the overall investment in the economy.

Why does investment in innovation and in R&D in companies lead to an increase in physical capital at the firms? What would support this casual relation?

The trajectory, simply, is as follows: (i) firms invest in innovation and generate new products, services and processes for market, (ii) the manufacturing activities, structuring and marketing of goods and services would need to be reordered to bring the entire company to their new strategies and innovations, (iii) the adjustment and restructuring would be possible by new investments in physical capital needed for expansion, organizational changes, new models of assembly and logistics business – not to mention habits and culture, (iv) finally, these new investments act to propel the growth of the company.

This differentiated view of the technological dynamics of Brazilian companies, and particularly the attempt to establish causal relationship between the growth of companies and their innovative strategies, encouraged visions of the heroic lone inventor or innovator, supposedly characterized by his genius.

It is true that invention and innovation are connected by a continuum. In advanced areas, inventions and innovations occur so frequently and quickly that it is not always easy to distinguish from one another, as in nano and biotechnology labs. But beyond the laboratories, innovation refers to a first commercialization of an idea or project, therefore, its privileged location is the company, capable of fine-tuning production and marketing. The invention, on the other hand, has a different orientation. It occurs in another sphere, in whatever space – in laboratories, universities, research centers and at the firms.

Certainly there are bridges and links between invention and innovation. What is clear is that understanding the transformation of an invention into innovation does not always happen quickly and requires different types of knowledge, ability, skill and resources. In this sense, the qualities of innovator and the inventor tend to be different, despite all the threads of continuity, through practical and theoretical knowledge, that can link one to another.

In the turbulent process of spread of technologies, virtually all the improvements and enhancements that represent points of inflection in the trajectory of an invention have been implemented even before its full commercialization.[4] Given its power as a transformer and mobilizer of the economy, this is a process that leaves greater marks on the countries' development.

In a seminal study from the 80's, Kline and Rosenberg explain in the following form the systematization and continuity of this process of innovation:

The fact is that the majority of the most relevant innovations undergo drastic changes throughout their lives - changes that can completely transform their economic significance. The improvements that an invention receives after reaching the market may be much more significant, from an economic standpoint, than the invention itself in its first form.[5]

From this perspective, a successful invention is always included in a historical trajectory, without which understanding would be difficult. Each invention always shows in its genetic code a long-term process, responsible for its maturation after (and even before) entry into the marketplace. In this sense, innovation should not be defined by the exact moment of entry into the marketplace.

The central issue, on one hand, is that the major innovations come to the world in very primitive conditions which makes immediate marketing impossible. It is the start of competition between firms, mainly based on small changes, additions, and copies, which allows for the evolution into a viable object for the marketplace. Under these conditions, the process of innovation is the result of extensive processes of improvement and redesigns, which may involve – or not – technology, basic research or applied research. That is, all processes, discoveries, new products or services – whether high-tech, low-tech or no-tech - that add economic value to the company are understood as innovations. On the other hand, the evolution and convergence of new technologies may lead to a new way of looking at an invention that lies dormant, seemingly with no future. Time, in this case, as a cradle for developing new applications and technical possibilities, is essential.

In Brazil and abroad, the debate about the meaning and potential of innovative practice still suffers from conceptual confusions. Many adherents of the heroic vision closely link invention and innovation processes and see innovative advances related to high technology. As a result, they lose sight of subtle mechanisms, seemingly minor and unimportant, as well as the evolution of other technologies in parallel or different spheres, which may be the real engines of the economy.

It is not easy, however, to visualize the innovative processes in all their breadth. This is not only because it is difficult to project different uses and appropriations of the original plans that users and other companies will make on the object. But also because, in general, innovation goes beyond the horizon of business and develops through an extensive network of employees, and its commercial aspect is only one of its many faces. Thus, the web that innovation forms involves companies, entrepreneurs, researchers, distributors, research institutions and consumers, in a scheme that creates highly diverse and complex ecosystem. It's therefore no wonder that management textbooks, related consultancies and innovation guides, with rare exceptions, are sources for generalities.

In fact, there is no ready recipe for guidance in this environment that, despite research advancements, still resembles a labyrinth. But generally, positive environmental considerations include high quality of human resources, an ongoing flow of ideas and information without preconceptions and, above all, a foundation conductive for entrepreneurship to translate into innovation. This means that innovation always occurs in an environment of uncertainty, which is a source of strength in companies.

The further the knowledge of the entire eco-system of innovation is advanced, the more associated uncertainty and risks can be minimized.

As always, it is not always easy to convince organizations devoted to the short-term to value the learning processes that are a fundamental component of experimentation. Precisely for this reason, institutions and companies that are open to innovation, occupy a prominent place in the dialogue between departments and tolerance for novelty. The constant interaction between technicians, engineers, designers and planners, to facilitate connections and interpersonal and interdepartmental synergies, constitute the most precious raw materials of modern organizations.

The slow road

With this present sense, concern about the innovation and knowledge is new in Brazil, a country more traditionally concerned with support and encouragement of scientific research.

Brazil is a country that industrialized late and also delayed the deployment of a system of S&T. It began a process of strengthening S&T in the 70's, being the first public effort to support the sciences, with the creation of graduate studies with support from CNPq, FINEP and CAPES. This was followed by strengthening of competitive funding mechanisms for scientific research in universities and research institutions (CNPq, FINEP and Foundations for Research Support). In their conception, however, a robust system for financing and encouraging technological development and innovation in enterprises was lacking. When the generation of scientific knowledge was explicitly linked to development projects, this system was then shown to be essential for training of companies and construction of strategic national sectors. It made possible the system to support the aerospace industry at Embraer, refining and extraction at Petrobras, agricultural training at Embrapa and, more recently, support for the China-Brazil satellite program. In all these projects, the presence of the state was – and, albeit in different ways, continues to be – fundamental.

Since the 80's, however, Brazil has sought new paths after exhausting the developmental cycle. The new realities for an open economy, where the degree of protectionism is significantly smaller, added to the difficulties of state funding, and pushed the Brazilian economy, especially the business sector, to compete for innovation. Despite the steps taken in this direction, the still low level of innovation that permeates the economy and the majority of Brazilian companies is cause for great concern, especially if observing that China and India, direct competitors of Brazil in international trade, are making faster and wider strides in this direction.

It is true that Brazil increased its expenditure on R & D – today around 1% of GDP – but China, since 2005, moved to third in ranking of investment (as measured in PPP – purchasing power parity), with a growth rate of 18% per year between 2000 and 2005[6]. At the same time – and this is one of the great weaknesses of the Brazilian economy – the private sector still accounts for the smallest share of this investment, unlike the average for OECD countries (performance: 63% and financing: 68%), and very different compared with the Indian and Chinese reality.

Brazil has, however, a differential condition in the world. It has a large consumer market and has a relatively large industry with about 90,000 industrial firms with more than 10 employees, employing more than 6 million workers and investing about $ 3 billion a year in R& D. These indicators highlight Brazil when compared to the average in developing countries.

It is evident, however, that the technological innovation indicators in Brazil are far from developed countries and even some emerging countries of Asia. In Brazil about 30% of companies are innovators. The average of this share in European Union countries is 50%. About 6,000 Brazilian companies made expenditures for R&D. Brazilian companies have invested 0.6% of revenues in R&D. In Germany this percentage is 2.7% and in France is 2.5%. Less than 3% of Brazilian industrial firms brought some product innovation to the market and less than two hundred innovate for the international market.

The biggest dilemma, no doubt, is in the private sector, because Brazil's economy is still far from developed and developing countries, and remains well behind countries such as Korea, India and China. Research, national and international[7], shows that innovation policies in Brazil also remain:

- Very oriented towards basic research;
- Very general and do not take into account the different characteristics of companies that have greater potential for innovation;
- Encounter difficulties to stimulate and enhance a large variety of innovations that are the backbone of the major economies.

The studies are clear to point out that despite the recent institutional improvements, the innovation system is still inefficient to transform the knowledge generated in research centers and universities into technology, products and services that impact on the economy.

Innovation, Basic and Business Research

There is no doubt that Brazil has advanced the relationship between Companies and basic research. Without intending to exhaust the subject, we must emphasize the importance of the creation of Sector Funds in 2001 for the financing of S&T&I in Brazil. The need for stable sources of funds for financing the activities of science and technology in Brazil was one of the factors that led to the emergence of the Sector Funds that today sustains the National Fund for Scientific and Technological Development (FNDCT).

The direction of these resources for knowledge generation connected to technological innovation is a key concern of public institutions. But the number of researchers working on technological innovation remains small and they still seek closer relations between universities and companies.

The first evidence in this direction has been found in recent studies that mapped the PhDs connected to groups of research grants and the coordinators of the projects approved in the Sector Funds[8]. There are 24,645 research groups registered in the CNPq Directory. Among these groups, 2,922 groups reported interactions with 4,483 companies and 1,137 companies in the services sector (excluding education) and industry.

Among the Sector Funds[9], 13,435 projects were supported between 2002 and 2008. 20.1% of funds were disbursed from Sector Funds, that is approximately $600 million was allocated to project managers, PhDs linked to research groups in the CNPq which relate to business services sector and industry. This is a relevant indicator of the university/industry link and for evaluation the mechanisms of the funding system for S,T&I in Brazil.

The difficulties of this connection become even more evident when examining the sources of R&D companies. According to PINTEC (IBGE), companies that invest in R&D in Brazil make this effort with more than 90% of their own resources. That is, although the State is responsible for more than 50% of expenditure on R&D effort, R&D in companies is mostly done without adequate sources of financing. In developed countries the government funds R&D largely by non-recoverable or zero interest, that is, under much more favorable terms than in Brazil.

Unlike what is often propagated in the universities, the investment of public resources in R&D in companies is extremely positive for the development of the country. Several studies demonstrated that the Program for Support for Technological Development of National Companies (ADTEN) and FNDCT Co-FINEP between 1996 to 2005 had a highly positive impact on the productivity of companies and their spending on R&D10. When compared with similar companies that did not have public support, studies have shown that public programs have induced significant changes within companies' performance, either in quality of wages of work. In addition, there was what we call "additionality effect" as companies supported by ADTEN invested 54% more in R&D from their own resources than similar companies that did not receive public support. Those supported by the Cooperative FNDCT-invested 104% more own resources in R&D. The increase in private spending on R&D shows that there isn't, in the Brazilian case, substitution of less expensive public resources for private ones; on the contrary, there is an addition of private resources, or, in other words, businesses receiving public resources invested more of their own resources. Although these results are largely positive for the Brazilian development, the scope of current programs is still very limited in terms of number of companies assisted.

Some data from PINTEC, collected by IBGE, translate some of these weaknesses into numbers:

- Brazilian industry innovates much less than developed countries. The degree of innovation, understood as companies when companies begin marketing a product and / or new process or improvements in the three years preceding the survey, was around 35% in 2005. Although linear comparisons cannot be done, given methodological differences, in seven countries surveyed by the Observatory for Innovation / ABDI (United States, Canada, France, United Kingdom, Ireland, Finland and Japan), the average for the same year was about 60%11.

- Expenditure on innovation in Brazilian industry is relatively high, however spending is directed mainly for purchase of new equipment and not for R&D performed within the company. If we take the expenditure on R & D performed by companies directly (as a percentage of its revenues), Brazilian indicators, despite the wide range of incentives, exemptions and special programs run by public institutions, remained virtually unchanged over the past fifteen years (around 0.6% in the last three PINTECs).

- The Venture Capital market is still in its infancy in Brazil – despite recent efforts by BNDES. In the most innovative countries, venture capital funds are a determining factor in inducing entrepreneurship.

Acceleration is Needed

The advances made possible by PITCE, in 2004, and by adoption of the Innovation Law and the Law of Goods, combined with a number of other instruments and legal, tax and institutional factors have significantly improved the economic environment for innovation in country. The subsidies, historically over-valued, combine to present a more balanced way with new instruments of direct incentive to R & D and tax relief to the most depressed (like those linked to information technology and communication), through special programs for the production of drugs and medicines, as well as reinforcing and strengthening the relationship between universities and companies.

The evaluation of recent initiatives related to tax exemptions also show that tax incentives induce investment in R&D of Brazilian companies.12 It is estimated that tax incentives programs for R&D in Brazil generate increased spending in participating R&D in 90% of cases. Tax incentives are widely used by developed countries to boost spending on R&D.

R&D funding in companies is universally used to induce development. Several countries have mixed funding under special agreements, such as in South Korea, Finland, France and Japan. Many countries make intensive use of government purchasing power, as in the United States. New legal instruments increasingly broaden the scope of funding programs for R&D in Brazil. With the new legal instruments (especially the Innovation Law and Law of Goods), and with the increase in the implementation of Sector Funds, FINEP supported 923 companies in four years. If we consider the Program Grant (2008) FINEP financed 1,132 enterprises in four years13. This is an enormous amount compared to the past in Brazil, and is a great deal for FINEP, but small compared with the standard in advanced countries.

Even in critical areas where faster progress is required and where there is still much to be done, such as the process of patenting, there is a positive effort to spread of a new culture that would allow Brazil to increasingly participate in the globalization of the value chain.

In the Brazilian case, it is key that a portion of the business community has awakened to the significance and necessity of innovation.

Studies have identified**14** a number of companies that differ from the historical pattern and performance displayed by the Brazilian industry.

These companies adopt new strategies in relation to exports and labor based on a more durable innovation process. This is true of even small companies, 1.7% of industrial enterprises of national capital, e.g., about 1,200 companies from different sectors. However, despite the small number, these companies have performed very significantly, since they account for more than 25% of sales in the industrial sector. According to data submitted by the IPEA, the new enterprise group distinguishes itself by: i) obtaining a special price on the international market compared to other Brazilian exporters ii) being productive iii) investing more in R & D and paying better wages to employees iv) investing more in training and capacity building; v) growing faster than other Brazilian companies.

The pace of technological innovation in Brazil is still able to generate employment, income and better paid and more stable jobs. Approximately 30% of Brazilian industrial companies make a product or process innovation every two years. According to information from RAIS (Ministry of Labor), industrial companies that innovate and differentiate their products pay 80.5% more for their workers than the average of workers employed in the industry. The jobs generated in companies that innovate and differentiate products require 20.9% more education for workers. The average stay of workers in these industries is 30.4% higher than average. Firms that innovate and differentiate their products will pay 23% wage premium for workers who have the same level of education and the same occupation in the same industrial sector**15.**

Many of these companies, besides having incorporated exportation into their growth strategies, began to internationalize their activities, investing outside of Brazil, building systems of production and services abroad, forming a select group of Brazilian multinationals.

The data revealed shows that the Brazilian productive structure is undergoing transformation. This recent development adds to the responsibilities of managers and policymakers, who need to be aware of the diversity and different skills of our economy.

Under these conditions, the innovation appears to be the only way to lift and support the level of competitiveness and the Brazilian economy. Precisely for this reason, all incentives to do so must be intensified. Without this dimension, the entire development agenda will be crippled.

New Challenges

If the challenges to Brazil were never small, then today they have become gigantic, going beyond general policies, to deploy and spread in private and public areas a new culture for the permanent differentiation in the domestic and international market. The past, in this case, operates as a burden to insure future outcomes. This begins with the changes in the power of the Union, because it was a time when it was possible for the government to put the engines of the economic development to work. This is not to identify the state as a villain to be neutralized, but to recognize that the state, despite its weight and importance, cannot afford to think, formulate, implement and evaluate new development policies without consultation, cooperation and interaction with business and civil society.

The Brazilian state no longer has the ability to act as a substitute for a business (as was believed in the past), or in place of a society that does not want or need to be replaced. The social, political and economic foundation of the old developmentalism changed. The "rules of the game" of the 40's to 80's, in the words of North**16**, aged and lost their effectiveness. To face the challenges of the twenty-first century, the institutions generated by the developmentalist state must be revised, restructured and resized in order to make way for a society aligned with the times.

Not infrequently, throughout the 90s, the short-term view prevailed in politics, business and in large part of public organs. It generated illusions and false dichotomies, such as an opposition (not always reasonable) between market and state. Fortunately, this debate has reached a new level. And though still controversial, the topic can evolve towards the recognition that the private and public sector needs to seal a new commitment to the country, mainly because Brazil needs new syntheses, more aggregated and less polarizing. Examples of development pacts that changed the face of many countries are abundant.

One of the key challenges for public policy in Brazil is to integrate the instruments to promote technological innovation in various institutions of the Brazilian State. This is only possible if the State has a strategic innovation policy. Whether or not there is boldness in business strategies also depends on the spread and entrenchment of this future vision.

To construct an innovation friendly economy

Real changes are known to occur in unstable environments and do not tend, in general, to follow rules or obey the manuals. Therefore, it is naïve for public managers, entrepreneurs or researchers to imagine that an eventual return to the interventionist state of the 50's, 60's and 70's would pave the way for the Brazilian economy and would overcome the chronic failures of the market.

The national developmentalism, with the substitution of imports, state-run companies and hyper-centralization of the economy, moved the state and drove Brazilian industrialization. But it is true that it also suffocated much of our productive system, broke the momentum of competitive industry and has been at the root of a series of crises that have eroded the country over the past 30 years.

One of these crises is related to the loss of flexibility of state action, the result of the inflexibility of an institutional architecture that has become inadequate and insists in giving us examples of ongoing aversion to change. More relevant than the many deficits in the economy appear throughout its history, Brazil is experiencing an institutional deficit that became clear with the need to rethink our development.

We're talking about a process of searching for a new national configuration of policies and instruments capable of steering Brazil in the midst of globalization and economic systems that have knowledge as its backbone. It is therefore much more than an appeal for a rigorous narrative of our history.

In Brazil, industrialization became the main inspiration of social evolution. And in a sense, this still remains. These roots have marked state institutions and are the modus operandi of government planners. The Brazilian economy has come to be seen as divided into industrial sectors, which need only to be inserted into the supply chains of developed countries. According to this view, the institutions of state, repeatedly, were organized to meet and encourage these sectors, which left deep traces in the formation of values, attitudes and behavior in the public and the business world. Only recently have public institutions started to rethink their policies and actions to modify the structure of production and services in the country. The recent emphasis on innovation comes from that very recognition of a need to diversify the economy, to expand exports, to increase the technological density of what the country must do to increase productivity and competitiveness.

Innovation policies have earned a place in the framework of transformation of the system of industry, in agriculture and services. More is needed, however, if the country does not once again want to miss the opportunity to take a leap forward in its development. A level playing field between the public and private sectors is needed to construct an effective innovation-based economy.

Glauco Arbix *is Professor of Sociology at the University of São Paulo, a member of the Brazilian National Council of Science and Technology, and heads the Observatory for Innovation, at the Institute of Advanced Studies (USP). He served as the president of the Institute for Applied Economic Research (IPEA – 2003-2006), and as general coordinator of the Strategic Unit (2003-2006), an advisory board to the President of the Republic.*

Endotes

1 See Arbix, G. (2007)
2 See De Negri, J. A. e Salerno, M. S. (2005) .
3 See De Negri, J. A., Esteves, L. e Freitas, F. (2007)
4 E. Rogers (1995)
5 S. Kline and N. Rosenberg (1986).
6 OECD, 2008.
7 See Rodriguez, A., Dahlmann, C., Salmi (2008) and OCED (2008) and Mobit (2007).
8 See De Negri e Lemos (2009).
9 Includes all projects that had at least 20% of its planned resources disbursed. The total of these projects was R$ 4.49 billion, with about R$ 3 billion executed.
10 De Negri, J.A., Lemos, M.B. and De Negri, F. (2008[a]) and De Negri, J.A., Lemos, M.B. and De Negri, F (2008b)
11 Research: Strategies of Innovation in Seven Countries: EUA, Canada, France, UK, Finland, Ireland, and Japan (MOBIT), executed by the Observatory for Innovation and Competitiveness.

12Avelar A.P. (2008).
13Dates from Jan. 2005 to Oct. 2008.
14See De Negri e Salerno (2005)
15Bahia, L (2005)
16D. North (1990)

References:

Acs, Z.J./D. B. Audretsch, 1988: Innovation in large and small firms: an empirical analysis. In: *American Economic Review, 78 (4)*.

Audretsch, D.B./R. Thurik, 2001: What's new about the new economy? Sources of growth in the managed and entrepreneurial economies. In: *Industrial and Corporate Change, 10 (1)*.

Arbix, G., 2007: *Inovar ou Inovar. A indústria brasileira entre o passado e o futuro.* São Paulo (Brazil): Edizione Sociologia-USP-Papagaio.

Arrow, K., 1962: Economic Welfare and the Allocation of Resources for Invention. In R. Nelson (ed.), *The Rate and Direction of Inventive Activity*. Princeton, NJ, Princeton University Press.

Audrescht, D.B., 1995: *Innovation and Industry Evolution.* Cambridge, MA: MIT Press.

Acs, Z.J./D.B. Audretsch, (eds.), 1993: *Small Firms and Entrepreneurship: an East-West Perspective.* Cambridge: Cambridge University Press.

Audretsch, D.B./R. Thurik, 2001: What's new about the new economy? Sources of growth in the managed and entrepreneurial economies. In: *Industrial and Corporate Change, 10 (1)*.

Avelar, A. P., 2008: Avaliação de Impacto do PDTI sobre o gasto em atividades de inovação e em P&D das Empresas Industriais. In: J.A. De Negri/L.Kubota, *Políticas de Inovação Tecnológica no Brasil*. IPEA.

Bahia, L./J.S.Arbache, 2005: Diferenciiãco Salarial Segundo Criterias De Desempenho Das Firmas Industriais Brasileiras. In: J.A. De Negri/M.S. Salerno, *Inovações, Padrões Tecnológicos e Desempenho das Firmas Industriais Brasileiras*. IPEA.

Bielschowsky, Ricardo, 1996: *Pensamento Econômico Brasileiro. O ciclo ideológico do desenvolvimentismo: 1930-1964.* Edizione Contraponto: Rio de Janeiro. Cf.: PAEDI, Fundação SEADE, SP.

Cohen, W.M./D. Levinthal, 1989: Innovation and learning: the two faces of R&D. In: *Economic Journal, 99 (3)*.

D. North, 1990: *Institutions, Institutional Change, and Economic Performance.* Cambridge: Cambridge University Press, 6.

De Negri/M.B.Lemos, 2009: *Avaliação das Políticas de Incentivo à P&D e Inovação Tecnológica no Brasil.* Mimeo – Nota Técnica do IPEA para o Conselho Nacional de Ciência e Tecnologia/MCT.

De Negri, J. A./M.S. Salerno, 2005: *Inovações, Padrões Tecnológicos e Desempenho das Firmas Industriais Brasileiras.* Brasília: IPEA.

De Negri, J. A./ L. Esteves/F. Freitas, 2007: *Knowledge Production And Firm Growth in Brazil.* First MEIDE Conference, Maastricht.

De Negri, J. A./ M.B. Lemos/F. De Negri, 2008a: O Impacto Do Programa ADTEN Sobre O Desempenho E O Esforço Tecnológico Das Empresas Industriais Brasileiras, In: J.A. De Negri/L. Kubota, *Políticas de Inovação Tecnológica no Brasil.* IPEA.

De Negri, J. A./M.B. Lemos/ F. De Negri, 2008b: O Impacto Do Programa FNDCT Sobre O Desempenho E O Esforço Tecnológico Das Empresas Industriais Brasileiras, In: J.A. De Negri/L. Kubota *Políticas de Inovação Tecnológica no Brasil.* IPEA.

E. Rogers, 1995: *Diffusion of Innovations.* New York: Free Press.

Griliches, Z., 1979: Issues in assessing the contribution of R&D to productivity growth. In: *Journal of Econometrics*, 10.

Kleinknecht, A., B. Verspagen, 1989: R&D and market structure: the impact of measurement and aggregation problems. In: *Small Business Economics, 1 (4).*

Kleinknecht, A./T.E. Poot/J.O.N. Reiljnen, 1991: Technical performance and firm size: survey results from the Netherlands. In: Z. J. Acs/D. B. Audretsch (eds), *Innovation and Technological Change: An International Comparison.* Ann Arbor, MI: University of Michigan Press.

Kline, S./N. Rosenberg, 1986: An overview of innovation, In: R. Landau, e N. Rosenberg (eds.), *The Positive sum strategy: harnessing technology for economic growth.* Washington: National Academy Press, 283-284.

MOBIT, 2007: Relatório Brasil. Brasília: ABDI-Observatório da Inovação do IEA/USP-Cebrap.

OECD, 2008**:** Science, Technology and Industry Outlook.

Rodriguez, A./C. Dahlman/J. Salmi, 2008: *Knowledge and Innovation and Competitiveness in Brazil.* Washington (DC): World Bank.

Romer, P., 1986: Increasing returns and long-run growth. In: *Journal of Political Economy, 94 (5).*

Solow, R., 1956: A contribution to theory of economic growth. In: *Quarterly Journal of Economics, 70 (1).*

Social Movements and NGOs in the Construction of New Market Mechanisms

By Ricardo Abramovay, Maurizio de Almeida Voivodic, Fatima Cristina Cardoso, and Michael E. Conroy

What is behind the proliferation of initiatives directed at improving the social and environmental governance of strategic sectors of the Brazilian economy such as soy, bio-fuels, livestock, wood, paper and cellulose? Round-tables involving the private sector, non-governmental organizations, and research organizations are coming together to insert themselves into what, up until recently, fell strictly under the aegis of corporate boards. It is still too early to assess the practical consequences of these processes. But it has become sufficiently well defined to allow analysis of what motivates it and what its more important mechanisms may be. A study of those mechanisms could well contribute toward elucidating some of the probable results. This text draws attention to an issue that is increasingly important for contemporary social science and even more so for economic sociology: the emergence of the non-state market-driven (NSMD) governance systems (Cashore, 2002) of global action networks (Glasbesrgen, 2010); a quest for "ethical quality" branding capable of changing predatory corporate behavior (Conroy, 2007), or as Hommel and Godard (2001) would have it, the proactive management of contestability. In Brazil, this is one of the themes to which part of the current production in economic sociology is being devoted.

At first sight it might seem to be merely a strategy to differentiate products by endowing them with a quality brand as typically occurs in situations of intense competition, traditionally studied in microeconomics under the heading "industrial economics." What calls our attention in the cases briefly outlined in this text is that it is not a question of organizing productive niches or highly differentiated luxury markets. Quite the contrary, the intention of the round tables (and to some extent, the very reason for their existence) is that their results affect all the elements that make up the supply chain. Were that not the case, the outreach of the environmental governance they seek to implant would be seriously jeopardized. Four fundamental features link these initiatives to an international tendency, admittedly incipient, but rapidly gaining force: they are voluntary processes; they engage the full range of stakeholders; they tend to expand their fields of action way beyond the products of the niche in question; and they interact dynamically with government policy formulation processes.

There are at least two tentative lines of thought that explain these new ways of organizing markets that partly incorporate the aspirations of the social and environmental movements. The first can be described as "functional" and shows the importance of business networks in stabilizing the social bonds that are typically part of corporate functioning in contemporary capitalism.

The core idea is that there is a tendency for the reputation associated with products and services offered to be increasingly externalized and become subject to parameters that are no longer entirely controlled by the companies themselves. As the weight of the business networks articulated around brands increases in contemporary capitalism (Davis, 2009, Laville, 2009), so do the demands for certification and traceability that the brands rely on. The Global Reporting Initiative is just one example of a tendency that is visibly on the increase.

Another approach really needs to be added to that functional and macro-structural explanation: a theory of action. It means envisaging corporate social-environmental responsibility as a social field (Bartley, 2007). Indeed, there is a vast amount of literature interpreting what corporate boards do as a result of what they have learned from the cooperative dimensions in which their competitive processes are immersed. The literature is notably less abundant, however, when the focus is not restricted to the direct protagonists of competition (the companies) but gives equal attention to social actors belonging to social spheres that are not primarily dedicated to obtaining economic gains, such as civil society organizations, unions, and social movements (Cashore, 2002; Conroy, 2007, Bartley, 2007) and even the agencies of the State itself.

Roundtables offer excellent opportunities for observing the workings and transformations of social fields (Bourdieu, 2005). Studying them basically implies describing the cognitive arrays that make up the fields in question and how they have evolved. The central idea is to denature the elements around which the protagonists define the field itself, as much in response to objective circumstances associated with the evolution of the markets as to the discussions and conceptions of control that prevail in the interior of the field (Fligstein, 2001a). Each field structures itself on bases that consist of the actors' mutual commitments, the information and material resources that circulate among themselves, the social control mechanisms on which they support their actions, and the way they solve their own conflicts and those that arise with participants from other fields. In other words, far from being clear,distinct, and ready-made technical parameters waiting to be discovered and revealed, the social-environmental requirements that are increasingly being incorporated into contemporary markets are the object of intense disputes around their definition, their reach, and their scope. They cannot be addressed as if they were mere rhetoric, in spite of the admitted risk of the presence of 'greenwashing' in any private does, and claims to do, announcing its performance in this field. What it means is recognizing that the markets are in fact susceptible to social pressures and that they undergo transformation as a result of the negotiations that result from those pressures.

That also means that formal contracts and business relations can only be understood in the light of social exchanges that entrepreneurs make among themselves and with other social actors that make up the field in which they operate (Bruni and Zamagni, 2007, Bruni and Sugden, 2008). In that specific sense markets are social constructions: in each case they are conceived as an intermediate sphere that neither dissolves itself into a set of macro-structures nor reduces itself into the actions of a supposedly "maximising" individual agent. Furthermore, the study of such social constructions necessarily involves an empirical examination of the skills of the various actors that constitute the field and the tactics they use. Thus the roundtables could be seen as excellent examples of the 'strategic action fields' that Neil Fligstein (2008) defines in his recent work.

It is also important to remember the parameters that will emerge from the various roundtables cannot be seen as technically irrefutable expressions of practices that could lead the way to social-environmental sustainability. Quite the contrary, since they depend on the relative power of the various actors, achieving them will always be the object of intense negotiation; so much so that in each of the cases examined, the initiatives are significantly different in terms of their organizational composition, agenda and ambitions. In each field it is possible to study the way the actors organize their social bonds around the four basic concepts that Fligstein (2001b) uses to study the subject: property rights, governance structure, rules of exchange, and concepts regarding control over the available resources. At the same time, the entry of new actors, above all those whose existence is associated with interests that are not strictly economic (like NGOs, indigenous organizations, unions and various other social movements), stamps new features on the hierarchies in the formations of the fields (relations between dominators and challengers) that so far have been studied little in the respective literature.

Skepticism surrounds the term 'corporate social-environmental responsibility'. On the one hand, even authors strongly connected to important corporate consultancy activities (Porrit, 2007, Speth, 2008) offer abundant examples that the real meaning of changes in behavior adopted by companies is practically irrelevant. The British newspaper *The Guardian* has run an impressive series of articles and interviews showing very clearly how corporate practice can be a long way off from their often edifying rhetoric. In that sense *The Guardian*'s texts and videos on the petroleum sector make a strong impression.

Furthermore, even though there may be some occasional, topical positive examples, it is impossible to avoid questioning seriously the general outreach of new corporate administrative practices in regard to the more serious global problems such as climate change, loss of biodiversity, and the worsening of the already precarious water resources in much of the poor and developing countries.

What that critical stance often underestimates, however, is the capacity of civil society organizations to insert themselves into the very way that contemporary markets organize themselves. Such skepticism is rooted in a vision of markets as autonomous spheres of social life, a view that economic sociology does its best to oppose in the various approaches it adopts. Studying markets on the basis of their social insertion means abandoning a posture that pre-classifies them as inherently evil fields entirely devoid of any aspirations to emancipation associated with contemporary social struggles (Zelizer, 2005).

What is extraordinary in Brazil's case is that one of the most conservative sectors of social life linked to the tradition of huge land holdings that has marked the country's historical formation is exactly where this particular model of social insertion in the organization of markets, the sectoral roundtables, is concentrated. Presently roundtables are influencing four sectors that are fundamental to the Brazilian economy: soy, bio-fuels, livestock production, and forests/paper/cellulose.

We will set out here only some information on each of these sectors which form part of a research program, still underway, that involves the Nucleo de Economia Socioambiental at the University of São Paulo – NESA (nesa.org.br) and the Lozano Long Institute of Latin American Studies at the University of Texas at Austin (LLILAS) (http://www.utexas.edu/cola/insts/llilas/).

Soy, bio-fuels, beef-cattle production, forests, paper and cellulose

There are two important initiatives related to soy. The first was formalized in 2006 and concerns what the corporate sector once considered taboo: allowing social and environmental considerations, other than those imposed by the law, to interfere with the organization of private business. It is exactly this that the Brazilian Moratorium on Soy Purchases has started to do. From June 2006 on, no company that was a signatory to the moratorium would purchase soy coming from farms located in recently-deforested areas of the Amazon. That decision led to the drawing up of a protocol that was signed by a group that brought together renowned nongovernmental organizations, some of the main vegetable oil manufacturers, the most important soy traders and exporters, and a rural workers union. This multi-stakeholder group committed itself to implanting a control system and for monitor its performance for a period of two years to ensure that the soy that was purchased could not be associated with the further devastation of the Amazon Basin. As Cardoso (2008) makes very clear in his work, behind the initiative is a campaign unfolded in various McDonalds outlets in Europe that reveals the connection between meat production and consumption and the destruction of the forests in the Amazon.

The control envisaged by the initiative was accompanied with aerial photography and satellite image monitoring which meant that for the first time the the way farmers used the land was exposed to a participative forum. Follow up on the moratorium showed that in the area that was monitored there were very few property owners that disobeyed the determinations that were the result of the agreement. The moratorium was later extended for a further two-year period, and a report is expected in 2010.

The second initiative, which also concerns soy, is more far-reaching and difficult. The Round Table on Responsible Soy-RTRS (http://www.responsiblesoy.org/) involves important Brazilian, Paraguayan, Dutch, Indian and North American NGOs like WWF and The Nature Conservancy, in addition to private sector participants like Bayer, Cargill, Carrefour, ADM, Marks & Spencer, IFC, and Shell, as well as Brazilian, Paraguayan, Argentinean, and Indian soy producers and cooperatives. One notable aspect is that the two initiatives (the moratorium on soy and the Round Table on Responsible Soy) differ not only in regard to the spheres they address (one is Brazilian and the other is international) but also in their composition and objectives. The RTRS seeks to establish international standards of responsibility for the sector; the way soy is produced, labor relations, and the way the various plantation ecosystems are treated. All of these characteristics of soy production are to be submitted to public scrutiny and analysis. In May 2009, an RTRS working group published a document setting out the principles that would be applied in the field "in order to permit producers of all types and sizes in a great variety of places to test the implementation of the requirements and to provide comments on the results of their experiences".

What is at stake is a quest for certification based on voluntarily determined standards. The system does not set out to become a legal imposition. There can be no doubt that predatory forms of production may continue regardless of the limits and new directives implicit in the parameters that the RTRS is establishing. In a final analysis this underscores the basic idea being put forward by contemporary economic sociology that the market is actually a socially-created field. It is impossible to know in advance which production patterns will in fact prevail. What is interesting is that most economic groups connected to soy production are part of the initiative and actively participate in the formulation of the standards. It must also be noted that by spelling out standards for legality, working conditions, potential relations with communities, environmental responsibility and good agricultural practices, the RTRS document has already delineated the guidelines to enable future independent external assessors to issue technical opinions that will open the way for the eventual certification of the producer.

There are also several initiatives associated to bio-fuels. The Global Reporting Initiative standards for reporting have already been adapted by some large sugarcane mills. The Rainforest Alliance is also about to certify some huge sugarcane plantations according to its standards for sustainable production. The Better Sugarcane Initiative intends to "to develop a certification system that enables producers, buyers and others involved in sugar and ethanol businesses to obtain products derived from sugarcane that have been produced according to agreed, credible. transparent and measurable criteria" (http://www.bettersugarcane.org/). The initiative involves Cargill, Cadbury, Shell, the União das Indústrias Brasileiras de Cana-de-Açúcar (Brazilian Sugarcane Industry Association), as well as WWF and the Dutch organization Solidaridad which is linked to the certification of Fair Trade. In the same way as the RTRS, the Better Sugarcane Initiative produced a set of principles and put them before the public for comment and criticism, thus preparing the basis for an eventual certification process. The principle that sugar cane lands cannot be the focus of significant local land ownership conflicts is one of the points included under the heading "compliance with all laws". The formal prohibition of child labor (also present in the RTRS documentation) and adherence to the principles of the workers right to freely organize is also important in regard to a supply chain where up to now the use of regularly contracted labor has been the rule. The Better Sugar Initiative also has clauses referring to High Conservation Value Areas similar to those in the documentation on soy production standards.

Another initiative is the Round Table on Sustainable Biofuels coordinated by the Swiss Federal Institute of Technology in Lausanne. It includes, among its members, Conservation International, the National Wildlife Federation, WWF, Boeing, Shell, Delta Airlines, Syngenta, and the Argentine Renewable Energies Chamber, and other organizations. It has eleven chambers, each with international specialists as advisors. In 2009, the group defined principles and criteria that will be tested in the field during 2010 in biofuel supply chains throughout the world to identify areas in need of further refinement.**1**

Those principles and criteria are preliminary and subject to change, for they can be modified in response to the participation of a variety of social forces and organizations in their implantation and control. What actually defines them – and this is the where our research comes in – are the strengths and capacities ("capitals," according to Bourdieu, 2005) brought to the table by the various protagonists which they make use of as the process unfolds. Some of the issues involved are technically complicated like those surrounding the indirect effects of the expansion of agro-fuel production. Sugarcane, for example, does not interfere in Amazon forest ecosystems directly; but it does have an indirect impact insofar as it displaces cattle ranching, which can and does occupy space in a variety of Amazon biomes. The RTSB is addressing that by means of a consultancy conducted by specialists, and the results will come up for discussion by all the protagonists. Obviously the product of that discussion is far from being a technically irrefutable consensus; for it depends on the ability of the various protagonists to persuade, put forward arguments, formulate agendas, describe occurrences, and come together and make sense of all the information gathered and contributed by the protagonists of the discussions. It is exactly in that sense that Neil Fligstein insists on the importance of social skills in the formation and functioning of markets.

The traceability of soy and sugarcane production is admittedly complicated; but even more challenging is the traceability of beef and leather production originating from cattle ranches. On the one hand, those ranches concentrate the majority of workers still subjected to precarious working conditions and, in some such ranches (a minority), working conditions analogous to slavery can still be found. At the same time, felling the forest to plant pastures, however illegal, is still one of the most common ways of adding value to land in the Brazilian Amazon. On the other hand, the mobility of the cattle and the presence of as many as fifteen intermediaries in the supply chain, from the moment a calf is born to the moment that the animal goes to the abattoir, adds further difficulties to the problem of traceability. In spite of all those difficulties, the issue has now burst to the fore in this sector with surprising force. Cattle raising is responsible for no less than 8% of the Brazilian GNP. However productivity associated with the activity in the Amazon region is very low and working conditions are extremely precarious. In that sense the Greenpeace report *Slaughtering the Amazon*
(http://www.greenpeace.org/international/press/reports/s

laughtering-the-amazon), which made explicit use of 'naming and shaming' tactics, has had a tremendous impact. In that report various big retailers like Tesco, Sainsbury's, Asda, Morrisons, and Marks & Spencer, and shoe manufacturers like Nike, Adidas, Timberland and Clarks Shoes, are cited as contributors to the problem, in addition to the big meat packers and their financiers. For all of them purchased meat and leather supplies that only existed because of environmental devastation and people working in precarious conditions.

In June 2009 the Working Group on Sustainable Cattle Ranching was formed involving Greenpeace, Friends of the Earth, WWF, some of Brazil's biggest meat packers, and some Brazilian banks. The focus of the meeting held in São Paulo in June 2009 was the idea that increasing the productivity of Brazilian beef cattle ranching (which currently occupies 200 million hectares to raise little more than 180 million heads of cattle) would make it feasible to halt the advance of the activity into the Amazon and even reduce the area it currently occupies. That however is contrary to the view of the larger packing houses that the excellent quality of the low-intensity Amazon Basin pastures is a critical economic foundation for meat production in the region.

In spite of such divergences, one of the first results obtained by the Working Group on Sustainable Cattle Ranching was that the municipal government of São Paulo approved a law that all meat sold within its limits should be traceable to ensure that it was not coming from areas of recent deforestation. It is impossible to say whether that law will be effectively implemented, or what effect it will have on the beef supply chain in the Amazon. But it does contribute insofar as it sends a message to the sector that the destruction of ecosystems will no longer be viewed as a natural part of the supply chain of that product and that it will begin to be treated for what it really is, a crime subject to the penalty of the law.

These three cases (soy, biofuels and beef) have been strongly inspired by the precedents set by the Forest Stewardship Council, the most important and most studied mode of non-state regulation of a market. Created in 1993, the FSC currently certifies forest management activities in 120 million hectares of forest lands, arguably 12% of the world's working forests, and more than 40,000 labeled products on the market. The FSC operates by means of certification bodies that are endowed with technical staff qualified to certify whether loggers and wood producers, and paper and cellulose manufacturers, have met the negotiated, stakeholder-based standards created by the FSC. Although the process depends on specialists, the certification process itself is substantially based on public consultations widely announced in the regions where the companies wishing to obtain FSC certification operate.

In essence the FSC was created by means of a 'political construction' process (Bartley, 2007) that involved various social actors in defining the governance mechanisms of a system of certification norms and regulations. Within that sector the relations among the environmental NGOs, social movements, and the logging and forest products companies, which has always been marked by contestation and boycotts, (Dudley et al. 1998) discovered a social field for negotiation in the form of the certification system. Within this system the rules of production are periodically revised and discussed, and the final results are obtained through equitable, democratic sharing of decision-making power among the representatives of the environmentalists, of the social movements, and of the forest products industry (FSC, 2006).

It is precisely that mechanism of multi-stakeholder participation and decision-making that enables the FSC to respond to new disputes and challenges and to manage to maintain its legitimacy and its credibility (Gulbrandsen, 2008). In the absence of any state authority to establish norms and regulate private sector production, non-state mechanisms of certification are constructing pragmatic and moral legitimacy (Suchman, 1995) specifically through the participation and involvement of various social actors (Cashore, 2002; Bartley, 2007). That does not signify, by any means, a belief that those social-environmental certification initiatives substitute for the state's duty to formulate policies that regulate production practices. But its role becomes clear in any analysis of the evolution of the FSC system in regions like the Brazilian Amazon, where the State is hardly present at all (Voivodic, 2009). What it does mean however, is that market mechanisms enable the social actors to discover a field of negotiations that they believe to be more efficacious than strategies of clashing and contestation.

In addition to soy, biofuels, beef, wood, paper and cellulose there are now round tables focused on cotton (involving India, Pakistan, Brazil, China, and West Africa), palm oil (Indonesia, Malaysia, Honduras, Brazil), bananas (Honduras, Belize and Guatemala), pineapple (Honduras and Guatemala), shrimp (Belize, Indonesia, Madagascar and Mexico) and salmon (Chile, Norway, Canada, and the United States). The Marine Stewardship Council, founded in 1999, is another important certification organization and OXFAM/NOVIB (Netherlands), WWF international, Global Ocean (Great Britain) and innumerable private organizations and companies participate in it.

Effective reach and limitations

Round tables do not suppress the conflicts of interests among the stakeholders associated with a given economic activity. In every sector there is a multiplicity of initiatives in which competition and cooperation exist side by side. That competitiveness is not limited to companies; it also occurs among the non-governmental organizations and social movements themselves. In the roundtable on soy for example, there is one set of participants for whom the only sustainable soy is the soy that never existed because it is historically a crop produced on huge tracts of land under highly specialized conditions and it is increasingly based on the use of transgenic varieties. Some union organizations abandoned the RTRS when it became clear that the question of transgenics was not going to be banned from the likely outcomes of the discussions. European NGOs did the same. Similarly, representatives of some Brazilian farmers abandoned the roundtable when they realized that the tendency of the discussions was to prohibit any further expansion of soy into the Brazilian savannahs (Cerrado) based on the arguments that they are High Conservation Value Areas. From the angle of labor relations, what stands out is that protocols approved in the areas of soy and sugarcane allow for a working week of 48 hours, with an extra two hours a day during the harvesting period. If we remember that a cane cutter slashes his blade down 30 times a minute, then it is hard to imagine that ten hours of such work a day, six days a week, can possibly come under the heading of what the International Labor Organization refers to as 'decent work'. Nevertheless, all the round table participants endorsed that clause, including those from the rural workers unions.

What is important and unprecedented in this extensive process is that, to some extent at least, it breaks with what the great classics of social science considered to be inherent to the workings of markets in a capitalist society: their opaqueness, which Marx translated into the notion of the fetishism of commodities, and Hayek expressed in his idea that each and every economic agent holds only partial, fragmentary knowledge, but sufficient to make it feasible for the market to coordinate them all in an efficient manner. The roundtables and the requirement of traceability associated with certification of products that are more extensive than simple niche products have managed to open, however slightly, the black box of markets. That opening is not, and never will be, complete; and they can never be expected to make entirely transparent the relations among the autonomous units that make up a capitalist society, much less their relations with the ecosystems on which they depend. Only a purely technocratic approach could envisage the possible the possibility of publicly exposing the definitive nature of all those connections. The novelty being introduced by the dynamics of the roundtables – and the object of the work being done by NESA and LLILAS – is a process whereby the mechanisms (Callon, 1998) on which the market functions can now include social-environmental dimensions that formerly were not a part of their determination.

Ricardo Abramovay *(abramov@usp.br) is Professor at the Department of Economics, University of São Paulo http://abramovay.pro.br/ , and coordinator of the Núcleo de Economia Socioambiental (http://nesa.org.br/).*

Mauricio de Almeida Voivodic *is Researcher of the Nucleo de Economia Socioambiental (NESA), Universidade de São Paulo, and Master Candidate on Environmental Science at Programa de Pos-Graduçao em Ciencia Ambiental, (PROCAM) Universidade de Sao Paulo.*

Fátima Cristina Cardoso *is Associate Researcher, Nucleo de Economia Socioambiental, Universidade de São Paulo.*

Michael E. Conroy *is Visiting researcher (with FAPESP support) in the Nucleo de Economia Socioambiental, Universidade de São Paulo.*

Endnotes

1 http://cgse.epfl.ch/webdav/site/cgse/shared/Biofuels/Version%20One/Version%201.0/09-11-12%20RSB%20PCs%20Version%201.pdf

References

Bagnaso, Arnaldo/Carlo Triglia, 1993: *La construction sociale du marché – le défi de la troisième Italie.* Cachan: Les Éditions de l'Ecole Normale Supérieure de Cachan.

Bartley, Tim, 2007: Institutional Emergence in an Era of Globalization: The Rise of Transnational Private Regulation of Labor and Environmental Conditions. In: *American Journal of Sociology*, Volume 113, No 2 (September), 297–351.

Bartley, T./C.D. Child, 2008-07-31: *The Effects of Social Movement Pressure on "Corporate Social Responsibility" in the Apparel Industry.* Paper presented at the annual meeting of the American Sociological Association Annual Meeting, Sheraton Boston and the Boston Marriott Copley Place, Boston, MA Online <APPLICATION/PDF>. 2010-01-23 from http://www.allacademic.com/meta/p242149_index.html .

Bourdieu, Pierre, 2005: Principles of an Economic Anthropology. In: Neil Smelser/Richard Swedberg (eds), *The Handbook of Economic Sociology.* Second Edition Princeton, Princeton University Press, 75-89.

Bruni, Luigino/Stefano Zamagni, 2007: *Civil Economy. Efficiency, Equity, Public Hapiness.* Oxford: Peter Lang.

Bruni, Luigino/Robert Sugden, 2008: Fraternity: Why the Market Need not Be a Morally Free Zone. In: *Economics and Philosophy, 24,* 35–64.

Callon, Michael, 1998: *The Laws of the Market.* London: Blackwell Publishers.

Cardoso, Fátima, 2008: *Do confronto à governança ambiental: uma perspectiva institucional para a moratória da soja na Amazônia.* Dissertação de mestrado. São Paulo: PROCAM/USP, Mimeo.

Cashore, Benjamin, 2002: Legitimacy and the Privatization of Environmental Governance: How Non-State Market-Driven (NSMD) Governance Systems Gain Rule-Making Authority. In: *Governance,* Volume 15, Issue 4, 425 – 587.

Conroy, Michael, 2007: *Branded! How the* Certification Revolution *is Transforming Global Corporations.* New Society Publishers.

Davis, Gerald, 2009: The Rise and Fall of Finance and the End of the Society of Organizations. In: *Academy of Management Perspectives,* 27-44.

Dudley, Nigel/Jean-Paul Jeanrenaud/Francis Sullivan, 1995: *Bad Harvest? The Timber Trade and the Degradation of the World's Forests.* London: Earthscan Publications.

Fligstein, Neil, 2001a: *The Architecture of Markets – An Economic Sociology of Twenty-First-Century Capitalist Societies.* Princeton: Princeton University Press

Fligstein, Neil, 2001b: Social Skill and the Theory of Fields. In: *Sociological Theory 19(2)*, 105-125.

Fligstein, Neil, 2008: Theory and Methods for the Study of Strategic Action Fields. Paper presented at the Conference *Institutional Development and Change.* Conference sponsored by the Max Planck Institute for the Study of Societies and Northwestern University, July 16-19, Chicago.

FSC, Forest Stewardship Council, 2006: FSC By-Laws. www.fsc.org .

Glasbergen, Pieter, 2010: Global action networks: Agents for collective action. In: *Global Environmental Change 20*, 130–141.

Gulbrandsen, Lars H., 2008: Accountability Arrangements in Non-State Standards Organization: Instrumental Design and Imitation. In: *Organization,* Volume 15(4), 563-583.

Hommel, Thierry/Olivier Godard, 2001: Contestation sociale et stratégies de développement industriel. Application du modèle de la Gestion Contestable à la production industrielle d'OGM. In: *Cahier École Polytechnique, Laboratoire d'Économétrie. N° 2001-15*. http://ceco.polytechnique.fr/

Laville, Elizabeth, 2009: *A empresa verde.* São Paulo: Edition ÕTE.

Lazega, Emmanuel, 2009: Théorie de la coopération entre concurrents. In: Philippe Steiner/François Vatin (eds), *Traité de Sociologie Économique.* Paris: PUF, 533-572.

Porrit, Jonathon, 2007: *Capitalism as if the World Matters.* London: Earthscan.

Sabel, Charles, 1999: Learning-by-monitoring: the dilemmas of regional economic policy in Europe. In: OECD (1996/1999), *Networks of Enterprises and local development – Competing and Co-operating in Local Productive Systems.* LEED/OECD Territorial Development, Paris.

Speth, James G., 2008: *The Bridge at the Edge of the World. Capitalism, the Environment, and Crossing from Crisis to Sustainability.* New Haven and London: Yale University Press.

Suchman, Mark C., 1995: Managing Legitimacy: Strategic and Institutional Approaches. In: *Academy of Management Review,* Volume 20(3), 571-610.

Voivodic, Mauricio A., 2009: Hindered by Governance – A Scenery in the Brazilian Amazon. In: Müller, Erika/Uwe Sayer, *FSC Footprints – Impacts of FSC Certification in Tropical Regions.* FSC Working Group Germany. Available at http://www.fsc.org/news.html?&tx_ttnews[tt_news]=122&tx_ttnews[backPid]=22&cHash=e21186d0f5.

Zelizer, Viviana, 2005: *The Purchase of Intimacy.* Princeton. Princeton University Press.

Southern Cities: Locomotives or Wagons of National Development

By Alvaro Comin and
Maria Carolina Vasconcelos Oliveira

Introduction

Development of information technologies and increasing economic integration between nations inspired and gave some plausibility to theses that space and location would lose relevance as "variables" in value chains. The idea of a horizontal, "plain world" where productive agents relate through networks and information flows is usually associated to loss of importance by Nation States and convergence between regions.

Although plausible, the "plain world" thesis1 clashes with counterevidence forming a vast investigation ground about cities' economic dynamics, specially "big cities", metropolitan areas, city-regions, global cities – the nomenclature can be broad. The typical context of much of that debate is that of developed countries, the USA and Europe in the first place, followed by Japan; or New York, London and Paris, Saskia Sassen's global cities2. The top place is occupied by global cities, and there are lower variations of hierarchic models and classifications for lesser cities in wealthy countries and also in major cities in the so-called developing countries.

In the present article, we discuss the course of development of São Paulo, Brazil – the core city of one of the world's largest metropolitan areas (now with over 19 million inhabitants or about 10% of the country's population) and top city in Brazil for economic development. The aim is to add elements that help to better specify the dynamic of large urban centers in countries such as Brazil – of large size as well as more recent and uneven development – stressing aspects that are usually not highly valued in this debate, namely: a) connections between "regional" and "national" levels; b) the importance of taking into account region's histories; and c) the distinct meaning that some changes associated to globalization have for developing countries.

In the following section, we shall summarize some historical aspects of São Paulo's development, in an attempt to show how the high concentration of Brazil's development in that region resulted from a combination of "local" elements, generated mainly after the late 19th century with encouragement and planning by the nation state after the same period. The importance of some national dynamics for the city's development is underlined here.

In the third section, to examine recent changes the city's economy is undergoing, we take some recurrent topics for the debate on the economy of major cities, namely: a) the sector-oriented nature of the region's (industrial or post-industrial) economy; b) the extension of its agglomerating field (regional, national, or international); c) and its functions as a space for innovation and circulation of knowledge. The broad centrality of the region for the dynamism of Brazilian economy is underlined here.

Finally, in conclusion, we explore some of the ambivalences of urban hyperconcentration of development in countries such as Brazil, pointing out the fact that it solves (or mitigates) the problem of those countries' lack of nobler assets (such as highly skilled workforce, networks of companies providing special services, density of financial institutions, universities etc.) but it also extends their strong regional inequalities and deepens the social-spatial segregation dynamics in those large metropolitan areas.

The nation and the city's development

Differently from most European and Asian cities, which appeared long before the nation states they belong to, in Brazil as well as in nearly all the America, cities are the product of multiple migration processes. Massive use of African slave labor has left a deep mark (which remains today) on regional distribution of economic development and particularly on the make-up of urban labor markets, without which the process of capitalist change cannot take place.

Even though it was founded early during Portuguese colonization, in 1554, São Paulo remained a small trading post of minor importance until the end of the 18th century. The activities that used to drive the interests of the Portuguese crown so far, especially sugar and precious metals, were located in different parts of the colony. Only with the expansion of coffee over lands that now make up the countryside of the state of São Paulo, the city grew in importance as a hub for trade and banking activities driven by the new and highly profitable crop. The region's development took place during Brazil's transition to being a free nation, which happened in 1822.

As it is widely known, in the 19th century, England embraced the abolition cause and started putting high pressure on American countries that maintained the institution of slavery even after they became independent. Brazil was one of the last countries to abolish slavery, but, since mid-19th century, slave trade to the country was banned. Therefore, coffee-based economy in the new exploration regions, located in the province of São Paulo, was less percolated by slavery and became an early center for massive foreign immigration. From the middle of the 19th century until the middle of the 20th century, Brazil (with São Paulo as the core destination) received successive waves of highly varied origin: Italians, Spaniards, Germans, Poles, Russians, Syrians and Lebanese, Jews, Japanese, Korean, to mention only the most numerous groups**3**. Not many people know it, but São Paulo has the highest amount of Japanese descendents in the world, after Japan, of course.

Therefore, as important as accumulation of capital from coffee exports – which was one of the elements to define the role of the city in the later industrialization process – the early formation of a free urban labor market was a decisive factor for the region and the city to become a center for the development of capitalist activities. Migration flows (especially from Italy and Spain) that settled in the city gave it a labor force including numerous workers already skilled in manual trades and having factory experience. Among them, those who were better off when they arrived formed the initial core of the industrial bourgeoisie and some built real business empires at their times. Those immigrants also brought to Brazil the experience of trade unionism, anarchism, socialism, and fascism. Later on, under the military regime (1964-1985), the region would also see the emergence of the substantial union protest movement that would influence the country's recent history. The major immigration waves are also to be credited with the "cosmopolitan" or multicultural air that the city sustains nowadays: no other city in Brazil displays such cultural diversity in its origins as São Paulo.

Wealth created by coffee (which accounted for two thirds of Brazil's export revenues in the first half of the 20th century) and lower dependence on slave labor placed São Paulo at the core of political power at the beginning of the republican period. Monarchy and slavery were two faces of the same coin. The end of slavery in 1888 took place over a year before the fall of the monarchy. Regional oligarchies whose power was based on slavery were sidelined and, under the hegemony of São Paulo's coffee oligarchies, the Brazilian State acted strongly to guarantee accumulation in that industry. At the peak of the Great Depression (1929), Brazil's government bought and burned huge amounts of coffee to sustain the profitability of businesses.

The 1930 Revolution, which to a large degree created contemporary Brazil, marks the beginning of the cycle of industrialization through import substitution. In order to enter the Second World War at the allied side, the government bargained with the US resources and technology to establish heavy industry. Many of the new investments were made in the São Paulo area (including infrastructure, such as transports, telecommunications, and energy), where industries such as steel, oil refining, and petrochemicals were implanted. From the 1950s on, when a long cycle of fast growth started in Brazil's economy (in the 1970s the industry grew at rates above 10% a year), São Paulo's metropolitan area was chosen to receive the automobile complex that was one of the motive powers of that growth cycle. Other important industrial complexes, such as metal-mechanic, electro-electronics, plastics and capital assets, for instance, also tended to concentrate strongly in the region, since a broad segment of specialized providers was being established there, as well as skilled industrial labor, financial institutions, and the most important port in the country located nearby, in Santos, about one hour from the state capital. Therefore, between the 50s and 70s, São Paulo's metropolitan area accounted alone for over half of the country's industrial product. Since Brazil's industrialization model was highly sustained by multinational capital, business environment in the city was transformed by the presence of major industrial conglomerates, chiefly American, German, Italian, French, and Japanese. That certainly contributed to give the city a business environment that was much more cosmopolitan than the rest of the country.

As can be imagined, the city and its surroundings became a center attracting migrants from all over Brazil, and it resulted in an exponential growth for the city. From 1950 to 2000, Brazil underwent its demographic revolution (fertility rate fell from 5.9 to 1.3 children per woman) and it became a urban country (urban population went from 36% to 81%). The big change was even stronger in São Paulo. Along that half century, the country's population trebled, that of the state of São Paulo increased fourfold and São Paulo city grew five times, from little over 2 million inhabitants in 1950 to more than 10 million in 2000. The process, however, has already been reversed and now the city is on its way to stabilizing its population. Several factors contributed to that: reduction in migration flows and their redirecting to other regions of more recent development; high cost of living and soaring land prices; lower demand for unskilled labor. The city now grows slowly and tends to expel lower-income populations to its outskirts, thus creating a new sort of spatial segregation of poverty.

This historical digression shows that São Paulo is presently a reasonably cosmopolitan and internationalized urban hub, concentrating industries that are more capital- and knowledge-intensive, because the country as a whole channeled much of its development to the region. In a pattern that is more or less typical of developing countries, urban hyperconcentration serves the imperative of regionally concentrating nationally scarce resources such as capital for productive investments, social services, and more advanced education and research institutions. It can be said that the hyperconcentration strategy has "worked" since the country got to take the leap, becoming one of the world's 10 largest economies – but at the cost of regional and social inequalities that are proverbial in the world.

The city and national development

These city-regions are locomotives of the national economies within which they are situated, in that they are the sites of dense masses of interrelated economic activities that also typically have high levels of productivity by reason of their jointly-generated agglomeration economies and their innovative potentials. In many advanced countries, evidence shows that major metropolitan areas are growing faster than other areas of the national territory, even in those countries where, for a time in the 1970s, there appeared to be a turn toward a dominant pattern of non-metropolitan growth. In less-developed countries, too, such as Brazil, China, India and South Korea, the effects of agglomeration on productivity are strongly apparent, and economic growth typically proceeds at an especially rapid rate in the large metropolitan regions of those countries. The same metropolitan regions are at once the most important foci of national growth and the places where export-oriented industrialization is most apt to occur. (SCOTT & STORPER 2003, p. 581).

The passage above brings important aspects that should be underscored, notably the idea that city-regions are not floating in the world; they are embedded in national territories. Important authors such as Manuel Castells (1999) embrace the idea that the rise of information technologies and economic globalization would imply the decline of nation-states and lead to a world similar to a constellation of nodes, in a cities network. That controversy is much broader than the debate on cities and it cannot be developed here, but the major crisis of 2008 reminds all of us how much national states are still the backbones of global economy. Financial businesses (and financial capital is always pointed out as the fastest-flowing and most deterritorialized form of capital) were rescued by their respective national states. And the fact that people in England and the Netherlands were hit by the bankruptcy of a major financial institution from Iceland led the government of those countries to rescue their citizens and demand compensation for lost funds from the government of the small Nordic country. Today, it seems clear that the funeral of nation states, so boasted in the 1990s, was premature.

Three aspects deserve attention for being closely related to the role of large cities in developing countries. They are: a) the importance of manufacturing industry; b) the extension of the gravity radius of those cities; and c) their role in innovation and production increment processes. We will return to the problem of relations between regional and national in conclusions.

a. A post-industrial city?

Post-industrialist theses are not new and have several different versions, but they basically converge on the idea that today's highly informational, technology-intensive development designs cities for economies based on the creation and circulation of immaterial goods, with manufacturing process losing importance. That trend finds its zenith in large cities. Of course, authors such as Castells (1999) and Sassen (2001, 2006) know perfectly well that the decline of manufactures – especially those that are more characteristic of the Industrial Revolution – in highly wealthy countries, mainly in Europe, have a counterpart in the huge industrialization process experienced by developing countries in recent decades. Seen from the "South", what is going on seems to be more a major industrial revolution than the emergence of an essentially tertiary post-industrial economy. Not that the so-called "new economy" does not develop itself in those countries – there are several good examples to the contrary – but it does not replace the crucial role that manufacturing industry plays and will continue playing in nations of more recent development. However, that did not prevent the academic field, common sense view, and – which is more serious – policymakers from associating "modern" metropolis and tertiary industries. That happened in Brazil. Let us see, then, how the recent history of the city of São Paulo illuminates that controversy.

As has been exposed in Section 2, São Paulo was the epicenter of Brazil's industrialization process in the first decades of the 20th century. In the mid-1950s, its metropolitan area concentrated over 50% of the country's industrial production, with less than 10% of its population. From the 1970s on, induced by the federal government, a process of relative deconcentration started in the manufacturing industry, parallel to the expansion of new development frontiers towards the Midwestern and Northern regions of the country. Even so, the state of São Paulo (of which the city is capital) still concentrates the same 50% of Brazil's industrial production that used to be gathered only in its metropolitan area, since areas adjacent to the metropolitan area were those where manufacturing industry advanced the most. A 150-km radius from the centre of the city includes about 40% of the nation's industrial production, revealing that new industrial investments, which started avoiding the city as well as its metropolitan surroundings after the 70s, were still attracted by the area where several large companies, especially multinationals, had their corporate headquarters. That is why several Brazilian experts have been talking about the formation of São Paulo's macrometropolis, a conurbation of nearly 30 million people including four metropolitan areas adjacent to São Paulo's, where several sorts of industry are concentrated, from the most traditional to highly innovative ones.

Table 1 shows the changes in the makeup of São Paulo's economic sectors between 1997 and 2005. Even though the relative weight of the manufacturing industry decreased in the period, the segment still accounts for over 10% of businesses, especially considering that it displays high rates of formal labor and wages above market average.

It is worth pointing out that the Brazilian debate on changes in the economy of São Paulo (of its metropolitan area, in fact) was strongly tied to the manufacturing industry versus service industry disjunctive, mainly influenced by international literature, as if those two fields were not pervaded by one another. The fact is that changes in businesses' organizational models (de-verticalization, mergers and acquisitions, local and global outsourcing) and the emergence of countless new products and services that are not dissociable – such as computer hardware and software – make the attempt to treat manufacturing industries and service industries as static increasingly mistaken[4]. Therefore, a more appropriate classification seems to be that which, instead of separating manufactures and services, distinguishes them in terms of the knowledge and technology they involve[5].

Examining São Paulo's productive structure in this way shows that manufacturing industry is less a process of exhaustion than an intense movement of reorganization. There is an increase in the number of highly technology-intensive industries and a decrease in less technology-intensive ones. A similar movement takes place in the service industry: the more sophisticated or more intensive ones in terms of knowledge (telecommunications, computers, financial activities, advertisement, media) – are the ones displaying the highest growth in the city, adding to the dynamism of remaining manufacturing industries instead of merely replacing them.

Therefore, São Paulo's (and that possibly applies to cities such as Mumbai, Shanghai or Seoul[6]) current development is not a case of transition from an industrial to a post-industrial or tertiary structure, but rather the accumulation of functions. It plays that role because it enormously concentrates the national assets that are very relevant both to manufacturing and service industries. This point is quite important regarding the problem of internal inequalities in those countries.

b. A command city

Saskia Sassen (2001) defines global cities (New York, London and Tokyo) as centers for command and articulation of production systems worldwide. The fact that directly productive activities have spread over the developing world in search of lower costs and new consumer markets is one of the justifications for the trend to concentrate the functions of articulation and command in large cities with advanced infrastructure in finance, telecommunications, trade, and business services in general. Reduced to national or regional scale, several major cities play a similar

Table 1: Establishment, employment and wage mass according to major industries MSP, 1997 and 2005*

Industry	1997					2005				
	Establishment		Employment		Mass	Establishment		Employment		Mass
	Abs	%	Abs	%	%	Abs	%	Abs	%	%
Transformation Industry	74.286	14,0	549.050	22,4	23,7	80.314	11,8	459.761	16,3	18,4
Service Industry	219.241	41,2	1.250.324	51,0	57,8	277.766	40,7	1.578.478	55,9	61,1
Trade	216.020	40,6	470.691	19,2	13,4	302.147	44,3	641.834	22,7	16,7
Construction	22.463	4,2	179.471	7,3	5,2	21.689	3,2	143.174	5,1	3,8
Total	532.010	100,0	2.449.536	100,0	100,0	681.916	100,0	2.823.247	100,0	100,0

*in Real on 12/2006. Inflator: INPC/IBGE Source: RAIS/TEM By CEBRAP

role. According to Duranton and Puga (2005), those cities transit from a pattern of "sector specialization" (agglomeration of manufacturing chains), to a pattern of "functional specialization", based on command and support activities, which "serve" the several production chains that are no longer located in their own territory.

The nationwide economic relevance of São Paulo is usually measured by its weight in national product: the city accounts for about 12.5% of Brazil's GDP (with 5% of the population). Its relative decline due to growth in other regions induces a false image of loss of importance. The "functional" importance of the city as a command and articulation center of Brazil's regional economies, shows an enlargement of its gravitation area, not only in strictly productive terms, but also as a center for shopping and leisure, specialized medical services, and as a core gateway for foreign relations.

The changes in the city's productive structure pointed out in the previous section is consistent with the strong influence of the city, especially towards the new frontiers for expansion of Brazil's economy, in the Midwestern and Northern regions, thousand of kilometers away. According to the study "The influence regions of cities – 2007", conducted by the Brazilian Institute for Geography and Statistics, IBGE, the network of cities whose core economic connection is São Paulo includes 1,028 towns that, together, concentrate 28% of Brazil's population (51 million inhabitants spread over 2.3 million sq kilometers – over a third of the country's territory) and 40.5% of its GDP, reflecting the more than proportional concentration of that regional aggregate. Within its influence area the city of São Paulo stands out with a per capita gross product that is 66% higher: 21.6 thousand reais[7] compared to 14.2 thousand for the other towns in the group. For a comparison, the second most important economic center – Rio de Janeiro – influences 264 towns with little over 20 million inhabitants (11.3% of Brazil's population), which, together, accounted for 14.4% of the national GDP, in 2005. And, in that case, the difference between the income in the center (Rio de Janeiro, with 15 thousand reais) and the other towns (14.8 thousand) is only residual.

Besides, of the 1,124 largest companies operating in Brazil, 365 are located in the city of São Paulo (420 in the whole estate), reinforcing the idea that changes in the city's production structure include thickening of command functions for business activities. Among the 50 largest financial institutions (in total assets), according to Brazils Central Bank, 32 are located in the city, showing its major role as a financial center (especially in the private sector).

c. The city as an environment for creativity and knowledge

Big cities are different not only for being big, but also because they are particularly prone to developing production activities based on knowledge and creativity. Literature points out some reasons for the association between urban environments and knowledge circulation, and a large part of them is related to the main input of chains based on those assets: labor. Even though it is argued that such industries might generate jobs for different profiles of workers, it is generally agreed that skilled workers are mostly needed in those industries. Activities involving innovation of any nature depend on proximity – not only spatial but also cognitive, organizational, and cultural[8] – and fluidity of interactions within those professional networks. The more recent the processes involved are, the more they spend on face-to-face contacts and specific social networks[9].

Major urban concentrations are, by and large, reservoirs of those workers, not only because they tend to prefer denser and more diversified spaces in terms of job offers (where they can earn more and remain part of specialized social networks), but also due to other advantages provided by large cities (more sophisticated consumption, culture and leisure equipments, health services, good quality schools for their children etc.)10. It is true that, for historical reasons (specially high income concentration and urban planning), São Paulo is far from entering the list of Brazil's best places to live; the city is challenged by chronic traffic jams, pollution, floods, and high crime rates. But it is certainly the job market with the broadest and best paid career opportunities for skilled workers.

São Paulo concentrates a substantial part of the country's infrastructure. Of all college graduates in Brazil in 2004, 30% were in the state of São Paulo and 12% in its capital. Between 1996 and 2003, 15,711 people received PhD degrees, over 60% of the country's total, about half of which were in the city of São Paulo. The city hosts the largest university in the country, which is also the leading Brazilian institution in international scientific production indicators. In this item, measured by articles published on internationally indexed journals, Brazil's history in recent decades is highly positive: the country jumped from 0.2% of the world's production in 1980 to 1.5% in the current decade. Nothing less than half that production comes from the state – 25% only at the University of São Paulo (USP), whose largest campus is located in the capital.

The city of São Paulo has numerous highly complex health equipments, which draw patients not only from all over Brazil but also from neighboring countries. It also has the most varied offer of cultural and leisure services in the country – 319 movie theaters, 110 museums, and 160 theaters11. It is a major consumption center that gathers from world brands to shopping centers such as that at 25 de Março Street, where over 800 thousand people circulate every day, drawing retailers from the whole country and an increasing number of neighbors from South America and even African countries. Few people would describe São Paulo as "beautiful" or "pleasant", but in spite of that, it is by far the largest tourism destination in Brazil, especially because of business tourism.

Conclusions

Because it concentrates, in a very disproportional way, several modern assets, in many aspects São Paulo is close to the profile prescribed in literature for cities that command and feed large economies with innovation. But it is important not to underestimate the negative effects of hyperconcentration or overestimate the positive effects that the density of those factors might create. The limits for the city's development are still dictated strictly by the pace of Brazil's economy, by federal government's policies, and by the dynamism of new frontiers for the country's growth. In other words, São Paulo's gravitational reach is still essentially national, and it tends to expand also through South America as regional integration gains ground. But that limitation is not due to its productive or urban characteristics, but rather to the still restricted degree of internationalization of Brazilian economy.

Urban chaos in metropolis such as São Paulo points out the limits of the hyperconcentrated development model, which characterizes the past and present history of most developing countries. In countries such as Brazil, in a foreseeable future, unfortunately, the best places to study, work, and do business are not the best places to live, if by living we understand having space, pure air and green areas. More than that, those cities summarize very well the developing processes generating extreme inequalities that are quite difficult to revert – well exemplified by Brazilian experience, even with recent progresses.

The current cycle of Brazilian economy has a clear deconcentrating bent, since the poorer or less developed regions are precisely those which grow faster. But given the accumulation of inequalities already established among the country's regions, decades would be needed for convergence in development levels. The poorest regions include the Northeast, which, for historical reasons, sustains closer relations with Rio de Janeiro. More recent developing areas, in the Midwest and the Amazon more to the North, whose growth is driven by export industries (such as soybean, cattle, and minerals), have stronger links to São Paulo. It is forcible to realize that something is symptomatic in a country where individuals must travel thousands of kilometers (by highly precarious or highly expensive means) to have access to a specialized health treatment, a good university or simply to purchase electronic products or watch a theater play. The other side of cosmopolitism and vibrant life seen in São Paulo (and in some other Brazilian cities such as Rio de Janeiro, Belo Horizonte, and

Porto Alegre) is still the poverty and lack of opportunities that mark urban environment in a large number of Brazililian cities.

Alvaro Comin *(alvcomin@usp.br) is Professor at the Department of Sociology at the University of São Paulo, coordinator of the area of studies on Development and Labor at CEBRAP (Brazilian Center for Analysis and Planning).*

Maria Carolina Vasconcelos Oliveira *is a PhD candidate in Sociology at University of São Paulo, researcher at the area of studies on Development and Labor at CEBRAP (Brazilian Center for Analysis and Planning).*

Endnotes

1Friedman (2005). For a critique of that theory, see: Rodríguez-Pose and Crescenzi (2008).

2Sassen (2001, 2006). See also: Scott (2001), Beaverstock et al (1999, 2000). For the globalizing cities in the south debate, see Segbers et al (2007), Yusuf and Nabeshima (2006).

3Nowadays, the city is still a hub for immigration, now mainly of South-Americans, Africans, and Chinese.

4São Paulo is still a major center for the textile and clothing industry, for instance, but it can be said that its structure changed to remain in the city, with the progressive replacement of factory sewing by home sewing, quite probably because the industry finds there not only abundant skilled labor, but also intangible inputs related to design and cultural diversity. On the other hand, services industries, such as call centers, and trade, such as storage facilities of major retail chains, increasingly take on "industrial" dimensions in terms of space, labor intensiveness and management forms.

5See Torres-Freire, Abdall and Bessa (forthcoming).

6Yusuf and Nabeshima (2006) report that, in East Asia, services with fastest-growing job rates are increasingly concentrated in major cities (as educational, informational, health, leisure and business services). For instance, over half of Japan's jobs in research and advertisement are in Tokyo – a proportion that is even higher in cities like Seoul and Taipei. On the other hand, most capital-intensive industrial activities also remains in those centers, and there is even space for some not very competitive activities, although, on average, the whole of those activities tends to be displaced to other areas. That is to say, what is seen is more a qualitative change in the productive structure of those large centers.

7The currency exchange rate is: R$ 1.00 = US$ 0,54 (Brazilian Central Bank, February 2010).

8For an exciting discussion on the several dimensions of "proximity" involved in the analysis of innovation processes, see Boschma (2005).

9Brazil has the fourth place among emerging countries in terms of global R&D investments, behind China and South Korea, which spend three times more money in those activities in absolute terms, and Taiwan (small Chinese province with little over 20 million inhabitants), which invests 50% more. But it is ahead of countries such as India, Russia, and Mexico. When only R&D investments by businesses are taken into account, Brazil falls to fifth place (behind Russia), but much behind the leaders South Korea and China (UNCTAD, 2005).

10See Markusen (2006), Markusen and Schrock (2006).

11SP Turis, 2008.

References

Beaverstock, J./R. Smith, R./P. Taylor, 1999: A roster of world cities. In: *Cities*, Volume 16, Issue 6, December, 445-458.

Beaverstock, J./R. Smith/P. Taylor, 2000: World-City Network: A New Metageography? In: *Annals of the Association of American Geographers,* Vol. 90, No. 1, 123-134.

Bell, Daniel, 1973: *The coming of post-industrial society: a venture in social forecasting.* New York, Basic Books.

Boschma, Ron A., 2005: Proximity and Innovation: A Critical Assessment. In: *Regional Studies,* Vol. 39.1, February, 61–74.

Castells, M., 1999: *A sociedade em rede: a era da informação: economia, sociedade e cultura.* São Paulo: Paz e Terra.

Duranton, Gilles/Diego Puga, 2005: From sectoral to functional urban specialization. In: *Journal of Urban Economics,* 57(2), 343-370.

Evans, Peter, 2004: *Autonomia e parceria: estados e transformação industrial.* Rio de Janeiro: Editora da UFRJ.

Friedman, Thomas L., 2005: *O mundo é plano. Uma breve história do Século XXI.* Rio de Janeiro: Objetiva.

Smelser, Neil/Richard Swedberg, 1994: *Handbook of Economic Sociology.* Princeton, Princeton University Press.

Jacobs, Jane, 1961: *The Economy of Cities.* New York: John Wiley.

IBGE (Brazilian Institute for Geography and Statistics), 2007: *The Influence Regions of Cities – 2007*.

Markusen, Ann, 2004: Targeting Occupations in Regional and Community Economic Development. In: *Journal of the American Planning Association,* Volume 70, Issue 3, 253 – 268.

Markusen, Ann, 2006: Urban Development and the Politics of a Creative Class: Evidence from the Study of Artists. In: *Environment and Planning A,* Vol. 38, No. 10, 1921-1940.

Markusen, Ann/Greg Schrock, 2006: The Distinctive City: Divergent Patterns in Growth, Hierarchy and Specialization. In: *Urban Studies,* Volume 43, No. 8, Summer, 1301-1323.

Rodríguez-Pose, Andrés/Riccardo Crescenzi, 2008: Mountains in a flat world: why proximity still matters for the location of economic activity. In: *Cambridge Journal of Regions, Economy and Society,* 1(3), 371-388.

Sassen, Saskia, 2001: *The Global City: New York, London, and Tokio.* Princeton, Princeton University Press, 2d ed.

Sassen, Saskia, 2006: *Cities in a World Economy.* London: Sage Publications, 3rd ed.

Scott, Allen J., 2001: *Global City-Regions: Trends, Theory, Policy.* Oxford: Oxford University Press.

Segbers, Klaus/Simon Raiser/Krister Volkmann, 2007: *The making of global city regions: Johannesburg, Mumbai/Bombay, São Paulo, and Shanghai.*

Storper, M./A. Scott, 2003: Regions, Globalization, Development. In: *Regional Studies*, Volume 37.6&7, 579–593, August/October.

Storper, M./A.J. Venables, 2004: Buzz: Face to Face Contact and the Urban Economy. In: *Journal of Economic Geography*, Volume 4, No. 4, Oxford University Press.

Turis, S.P., 2008: *Indicadores e Pesquisas do Turismo – Cidade de São Paulo.*

Torres-Freire, Carlos/Alexandre Abdal/Bessa Vagner (forthcoming): Conhecimento e tecnologia: atividades industriais e de serviços para uma São Paulo Competitiva. In: Alvaro Comin, Carlos Torres-Freire/Tomás Wissenbach (eds), *Metamorfoses Paulistanas: Atlas Geoeconômico da Cidade.* São Paulo: Unesp, Cebrap, Sempla and IMESP (in press).

Yusuf, S./K. Nabeshima, 2006: *Postindustrial East Asian Cities.* Washington: The World Bank.

Heterodox Reflections on the Financial Crisis

By Antonio Mutti

University of Pavia, Italy, antonio.mutti@unipv.it

I would like to offer some reflections on the current financial crisis in order to challenge a certain uniformity of interpretation, which is preventing attention being focused on issues of key importance. These reflections are rarely to be found in the discussions among experts, or even in the lively debate which has taken place in most of the media. For the sake of simplicity, I will try to present them in the form of answers to four questions. Naturally these are difficult questions, to which it is equally difficult to provide satisfactory answers. Nevertheless, the very seriousness of the crisis, requires us, for once, to reflect on wider issues. The four questions can be formulated as follows: 1) Can financial crises be predicted or not? 2) Is it true that such crises are due to a failure to regulate financial markets properly? 3) Why do trust, distrust and reputation play such an important role in financial crises? 4) How do market regulators protect their reputations in the event of an unexpected crisis?

Can financial crises be predicted or not?

History offers one answer to this question by showing that the business cycle in market economies follows a wave movement. But it also teaches us that we are unable to predict the shape, timing and peaks of these movements. We also know that speculative bubbles, booms and financial crises follow, as Keynes (1936) and Minsky (1982) clearly stated, a pattern of waves of trust and distrust, optimism and pessimism, in which cognitive and emotional dimensions intertwine with herding behaviour and collective contagion. However, as yet we do not have an integrated theory of all these dimensions. Finally, the nature and makeup of the causes triggering the crises appear to vary considerably (e.g. speculative bubbles on tech stocks, real estate bubbles, bubbles generated by excessive bank exposures, as in the case of the sub-prime loans i.e. loans made to clients without sufficient guarantees etc.). It is therefore highly likely that future crises may be triggered by causes, or combinations of causes which may be completely different from those of the past and, hence, unpredictable.

The unpredictability of crises and bubbles is the result of financial innovation and the costs that go with a risk economy. But it is also a consequence of strong uncertainty due to unexpected, idiosyncratic events, to aggregate and systemic risks, and to discontinuities that cannot be incorporated into linear forecast models based on time series or Gaussian distributions (Taleb 2007). Such situations are difficult to capture, even using the most sophisticated financial mathematical and social simulation models available. Such models too have huge limits in accounting for the oligopolistic nature of financial markets, and hence the strategic dimension and power exercised by the major financial organisations. Unfortunately, these difficulties tend to be neglected in the current debate among economists on the sub-prime loan crisis. Positions for or against the dominant economic model are generally characterised by an implicit optimism in the ability of economic theory to overcome its limits both in terms of forecasting and managing the business cycle.

All these difficulties help to explain why the scale of the recent financial crisis, as with previous crises, was not foreseen early enough to be averted. If we exclude the authoritative, but minority voices of Krugman, Roubini, Shiller and Stiglitz (who, however, failed to predict when exactly the bubble would burst, as happens with geologists in the case of earthquakes) it is easy to verify that although the analyses produced by government and regulatory authorities, private think-tanks and by analysts and economists did detect some weaknesses and risks in the financial system before the summer of 2007, they were not considered to be of a magnitude that would pose a grave threat.

Are crises the result of an unregulated financial sector?

The absence or lack of sufficient rules or failure to comply with them are undoubtedly important explanatory factors behind crises. But overcoming these limits, and thus managing such crises, is not at all as simple as one might construe from the present debate, which is entirely centred on identifying more effective systems of rules. These difficulties are due not only to the obvious fact that it is humanly impossible to write perfect rules, but above all to the fact that the rules behind financial markets may be ambiguous and easily manipulated, and that applying these rules may produce unexpected consequences. Furthermore, there are situations that are inevitably difficult or even impossible to regulate. These elements of uncertainty, which globalisation and the liberalisation of markets of the last thirty years have exacerbated, have compounded the problems of information asymmetry of market players and greatly increased the opportunistic behaviours of financial players with very different levels of power. These «complications» deserve closer analysis.

Historical and sociological research over the last twenty years (Hoffman et al. 2007) has shown very clearly that, even when there are well designed formal and informal rules to govern the market and contain the opportunistic behaviours of financial players, these rules are likely to experience alternating periods of compliance and non-compliance. In periods of expanding, buoyant financial markets there is a general slackening of regulatory and supervisory systems. This is partly responsible for speculative bubbles and financial scandals. When these bubbles burst, and there is a downturn, calls (above all from the middle classes most affected by the crisis) grow for stricter rules, more accurate information and greater transparency. New regulations are then brought in, checks become more stringent and rules are more closely adhered to. However, booming financial markets lead, once again, to checks and rules being relaxed in a kind of cyclical pattern. The present financial crisis too, as has been widely documented, was preceded by years of euphoria and excessive deregulation of the markets, with financial players and regulators as well as government all participating to a cultural climate which saw widespread relaxation of the regulations and checks on derivatives, securitization and bank debt. In this case too, the bursting of the speculative bubble has been followed by calls for new rules, greater transparency and new supervisory bodies to oversee globalised markets.

In addition to the presence of these cyclical trends in applying regulations and checks, there are in any case always significant margins for ambiguity and flexible interpretation of the rules, as well as unexpected consequences in implementing them. Market players play out this game of manipulating the rules according to their different power relations. This can produce conflicts among the various regulatory authorities and a failure to co-ordinate. The financial market is an oligopolistic market in which the big institutional investors have the power to significantly influence its overall shape. Hence, the metaphor of a horse race is not an appropriate one to describe this market. According to this metaphor gamblers are free to bet what they want but, in the end, the horse will win or lose regardless of the bets placed (provided the race has not been fixed). The metaphor works well for a market that is perfectly competitive, but not an oligopolistic one. In the financial markets the big gamblers exert a powerful influence on market value and act using strategies based on expectations and anticipating others' expectations, in which cognitive and emotional dimensions are complexly intertwined.

As for the unexpected effects deriving from the implementation of the rules, it should be underlined that applying excessively homogeneous and standardised regulatory criteria to financial markets can worsen matters rather than have a counter-balancing effect. For example, the use of rigid *mark-to-market* accounting (based on market value) at a time of serious crisis and a collapse in the value of assets, as at present, may end up further exacerbating the balance sheets of businesses. These unexpected effects, precisely because they are «unexpected», can only (when possible) be corrected *ex post*.

Of course, the existence of rules does not exclude the presence of a shadow financial system that is as yet unregulated or impossible to regulate. This explains why even a well devised system of rules, designed to avert the financial crises of the past, is unable to prevent new crises triggered by radically different and unpredictable causes. A proliferation of financial innovations creates new situations, that often make a system of pre-existing rules ineffective. If these innovations operate *over the counter*, beyond the pale of regulated markets, then the problem of the efficacy of regulatory systems becomes more complicated. Each wave of innovation generates problems for the traditional control systems. These costs go hand in hand with a risk and innovation-based economy, which can only be resolved in time through new, more effective regulation. Finally, it is worth recalling that there are processes inside the financial markets which cannot be regulated, linked to situations of strong uncertainty, which has become particularly acute in a context of globalised financial markets. These types of uncertainty, due to unexpected and idiosyncratic events, cannot be transformed into probability-based calculable risk or, for that matter, be quantified in statistical or mathematical terms.

Why are trust, distrust and reputation so important in financial crises?

The uncertainty present in financial markets, and the inevitable "incompleteness" of the rules which govern them, leave considerable room for issues of trust and reputation. Trust and distrust of financiers and of financial products, as well as the reputations of financial institutions, powerfully affect the expectations and decisions of market players. In other words they constitute elements designed to reduce uncertainty through cognitive and/or emotional reassurance.

Research in the field of social psychology (Mutti 2007) provides some understanding of the dynamic features and specific characteristics of trust, distrust and reputation which also apply to financial markets. It is worth briefly recalling the specific features which connote interpersonal distrust as compared with trust. Distrust lacks the moral dimension of co-operation and sociability that is intrinsic to trust. Distrust, unlike trust, does not need to be "honoured", at most it needs to be proved wrong. Distrust is less likely to evaluate the proof offered by experience and finds it more difficult to transmute into trust than the shift required for trust to turn into distrust. This is due to the fact that communication and social interaction are more restricted with distrust. Negative expectations are characterised by rigid, closed and defensive positions. It is generally more difficult to modify negative opinions than to modify positive ones. The result is that an active distrust policy ends up having more stable effects, which are more difficult to reverse than those produced by an active trust policy. Something similar occurs to the reputation of financial brokers and market regulators, understood as the stability of the trust or distrust they enjoy. Negative reputations are more impervious to evidence to the contrary than positive reputations. It is therefore easier to maintain a bad reputation than it is to keep a good one. As a result, actions or policies which damage the reputations of financial products and financial institutions, have more irreversible effects than actions or policies which promote their good reputation. What's more, a bad reputation tends to spread more rapidly than a good one. It is accepted more easily, as a spontaneous aversion to risk and a natural predisposition to defensive behaviour. These observations, while useful, are anything but exhaustive. We know even less about the patterns of trust and distrust which characterise financial cycles. Researchers in sociology and psychology have yet to produce significant analyses on the contagion patterns underlying these processes. Can economists, sociologists and psychologists work together on these issues of crucial importance? One can only hope so, though there is more than one ground for pessimism.

From what I have said so far, it is clear that anticyclical monetary and fiscal strategies adopted by various governments should be evaluated, not only in terms of their efficacy on the economy, but also in terms of the trust and reputation effects they produce. Continuing demands for new rules to get through the crisis clearly conveys this need to restore mutual trust among financial players. And this is true regardless of the inevitable limits which characterise the proposed new rules, which I will now consider briefly. One set of proposals focuses on the urgent need for a global regulation of financial markets, to be achieved through transnational conventions, agencies and regulators. However, achieving such a goal is made difficult due to the different interests of the various nations which are unable to reach a satisfactory agreement, as the numerous G8 and G20 meetings have shown. Furthermore, it is equally hard to achieve agreement on a suitable mix between state and market in managing regulation. This mix can only be the result of a historically variable process. Economic theory cannot tell us what is the ideal mix between state and market, one which would not suppress but encourage the "animal spirits" of economic agents, in particular of entrepreneurs and innovators. A second set of proposals focuses on the content of the new rules, believing that the self-regulatory principles adopted by financial players will be radically revised in the knowledge that any regulation system, in order to be successful, inevitably requires co-operation between the regulators and the regulated. This second set of proposals suggests four solutions. The first solution seeks greater transparency in the products offered on the market, in particular those *over the counter* whose weight it is hoped will shrink drastically. Improving and democratising the infrastructure of information is also undoubtedly a priority (Shiller 2008). But unless we really believe that perfectly competitive financial markets can actually be achieved, we need to be aware of the fact that there will always be margins of information uncertainty and asymmetry, however small, where power strategies and opportunistic behaviours assert themselves. The second solution calls for a reduction in the financial leverage (ratio of exposure to risk to own capital) of banks and other financial institutions, above all in periods of boom. In this case the biggest problem is deciding what is the appropriate level of financial leverage that can prevent speculative bubbles without compromising the income opportunities of financial agents. The third solution calls for the elimination of every form of conflict of interest between the supervisors and supervised, between control and consultancy, which particularly affected the auditing firms and credit rating agencies. However, in this case too, players have various opportunities to get round the rules, as the Sarbanes-Oxley Act, which was passed in the United States in 2002 to combat opacity and conflicts of interest in corporate governance, has shown. The final solution proposes limiting the bonuses and stock options financial institutions give to their executives, so as to curb excessive exposure to personal and corporate risk. Once again, how do we go about defining the appropriate level of bonuses to pay managers and executives? The answer is not an easy one, though it may well be possible to establish maximum thresholds in order to limit excessive compensation packages by encouraging codes of ethics in corporate governance.

It is easy to speak of new rules. But less easy to identify rules which could avert crises such as the one we are experiencing and, even more so, could prevent different types of future crises.

How do market regulators protect their reputations in the event of an unexpected crisis?

Whatever their limits, the measures taken to combat the present financial crisis should also be read as attempts to restore the reputation of financial institutions and their regulators, which suffered a serious blow because of their inability both to foresee the crisis, as well as avoid conflicts of interest and opportunistic behaviour. It is no coincidence that the question of "who supervises the supervisors" is growing more relevant. Since this is a systemic crisis, the mass substitution of managers and CEOs or the market's unconditional acceptance of the bankruptcy of many financial institutions would appear to be inadequate solutions. Such eventualities would in fact increase rather than reduce systemic distrust. On the other hand, financial institutions and regulators, save in a few cases, are incapable of effective self-criticism, and tend instead to hide behind organisation strategies to protect their reputation which entail lobbying government, adopting formal and standardised evaluation criteria that are increasingly unable to gauge the true health of the firms being assessed, and using evaluation criteria that lack transparency, especially the more qualitative and arbitrary ones. Such lines of defence are clearly inappropriate in situations of systemic crisis.

Thus, the introduction of new rules to assess risks and guarantee the transparency of markets and evaluation procedures put in place by regulators, as well as the creation of new national and international super regulatory agencies with stronger reputations, end up performing the task of producing a positive reputation for the financial institutions by introducing new and more complex regulatory systems. In other words "reputation is created through regulation". This may partly explain why, for example, auditing firms and credit rating agencies continue to issue influential certifications, despite being in the eye of the storm.

But where does the game of trust ("who supervises the super-supervisors?") stop? The threshold can be found in the presence of political and institutional actors which, since they enjoy the public's trust, act as more prestigious supervisors and as guarantors of "last resort" for the trustworthiness and reputation of the financial institutions. The American President Barack Obama is a very significant case in point. His appeals to trust are clearly based to a large extent on manipulating emotions, thanks to his charisma. But it is equally important to note that these appeals are accompanied by cognitive reassurances. These reassurances consist in presenting the crisis in all its gravity, together with full, detailed and credible plans of action for the short term (to deal with the emergency and panic situations) and the long term (to produce a global re-organisation of the financial system). These action plans are also accompanied by promises and measures to safeguard social justice, i.e. to pay compensation to victims of fraud and to contain the "moral hazard" of institutions which are considered too big to fail. This strategy appears to be more successful than ones which minimise the gravity of the crisis and the decline in trust and, as a result, limit government intervention in support of the economy and finance. But, given that we know little about the dynamic patterns of systemic trust and distrust, we should let history be the judge of the success of Obama's strategy.

However, history does teach us that systemic trust and reputation improve only when the business cycle is on the up, on the basis of mechanisms that even the most acute analysts cannot predict, though it is true that appropriate policies to support the economy can undoubtedly boost economic and financial recovery. This improvement also depends on two further elements which are specific to systemic trust, as compared with interpersonal trust. The first is the "inertia" produced by the public's sense of detachment towards impersonal and hyper-complex institutional systems, which in the long run tends to regenerate a pragmatic acceptance that they exist and work. At some point financial players need to believe in the credibility of financial institutions and regulators, while knowing they are fallible. In other words, a kind of collective reassurance sets in as regards the actions of financial institutions and regulators to reduce anxiety. The second element is linked, as financial crises of the past show (Herring 2002), to a collective amnesia over time, of crises and the damage they cause (with the exception of the Great Depression of 1929 which has remained in the collective memory). This explains why, despite their frequent crises, sooner or later investors always return to the financial markets.

Antonio Mutti *is Full Professor of Economic Sociology and Chair of the Department of Social and Political Studies at the University of Pavia. His research focuses on trust and reputation in socio-economic development and in the financial markets. His latest book is Finanza sregolata? Le dimensioni sociali dei mercati finanziari (Il Mulino 2008).*

References

Herring, R.J., 2002: Credit Risk and Financial Instability. In: R.M.Levich, G. Majnoni and C.Reinhart: *Rating. Rating Agencies and the Global Financial System.* Boston: Kluver, 345-367.

Hoffman P.T./G. Postel-Vinay/J.L. Rosenthal, 2007: *Surviving Large Losses*. Cambridge (Mass.): Harvard University Press.

Keynes J.M., 1936: *The General Theory of Employment, Interest and Money.* London: Macmillan.

Minski H, 1982: *Can "It" Happen Again? Essays on Instability and Finance.* New York: M.E.Sharpe.

Mutti A., 2007: Distrust. In: *Annual Review of Italian Sociology*, Scriptaweb.it, 47-63.

Shiller R.J., 2008: *The Subprime Solution.* Princeton: Princeton University Press.

Taleb N. N., 2007: *The Black Swan.* London: Penguin Books.

The Revue Française de Socio-Economie: Reconnecting with the Social Science Project

Florence Jany-Catrice

Assistant Professor, Editor of the RFSE,
Florence.jany-catrice@univ-lille1.fr

Richard Sobel

Assistant professor, assistant editor of the RFSE,
Richard.sobel@univ-lille1.fr

1. The RFSE: a pragmatic undertaking

The *Revue française de socio-économie (RFSE)* is first and foremost the result of an association, both intellectual and personal, among French academics in the social sciences. The idea for a new journal first took shape within Clersé *(Centre lillois d'études et de recherches sociologiques et économiques)*, a research center at the University of Lille 1, whose founding idea is that dialogue between economists and sociologists is fruitful. The journal's original founding group quickly expanded of course beyond Lille, thanks to the support for the burgeoning project lent by like-minded members of French research centers and teams, such as Matisse**1**, IDHE**2** etc. Many academics expressed an interest in setting up a journal that naturally positioned itself at the confluence of three strands of research in the social sciences: heterodox economics, economic sociology and social economics. (1) French heterodox economics, in all its diverse constituent strands (Keynesian, Marxist, conventionalist, institutionalist, regulationist), is based on the key principles of pluralism and historically situated and therefore necessarily contingent analysis. (2) Social economics, for its part, is intrinsically part of the field of socio-economics because it has its origins in a political project as well as in a fruitful dialogue between economists and sociologists. (3) Economic sociology and the practices, methods and results associated with it are a reminder that there are a number of different paths that can be taken in order to advance economic knowledge. Shaped by its own historic trajectory, each strand seemed willing to share intellectual points of view, focusing first on research problematics and then on methods, concepts, chains of reasoning and results, all of which are sources of mutual enrichment.

Of course the collaborations occasioned by the *RFSE* are not confined to these three native schools of thought, which together constitute a sort of French socio-economics that is clearly defined and therefore substantivised. What defines this French journal of socio-economics is a significantly more procedural approach, and the *RFSE* provides a home for social science research that subjects its economic objects to distinctive and open-ended scrutiny. Such research quite naturally has a place in the journal, just as the work of scholars in the fields of economic philosophy, history, economic anthropology, political science and management does. Although it is not a journal of the history of thought, the *RFSE* does not exclude articles on the major theorists (Smith, Marx, Weber, Durkheim, Polanyi, Keynes, etc.) whose works constitute the social sciences' shared intellectual heritage, if their purpose is to enhance our understanding of current economic phenomena or to shed new light on the issues they raise**3**.

There is obvious potential for collaboration between these different social sciences and schools of thought, and the *RFSE* provides a forum for testing and realising this potential. The possibilities for collaboration are located at both the epistemological or theoretical and the practical or empirical levels. Epistemologically speaking, all the social sciences are derived from political philosophy and deal with the institutions that characterise life in society, which gives them an anti-naturalist stance**4**. In practical terms, the nature of the objects of investigation, from the most general (the market, the firm, rules, well-being, wealth, institutions) to the most specific (unemployment, social justice, health, services, the environment), means that these various sciences of the social are indeed closely interwoven. Thus it is that, mediated through these two aspects, the empirical or epistemological hearts of these various schools of thought and strands of research interact with each other. And it is this beating heart of socio-economic analysis and interrogation that the *RFSE* seeks to reflect. Its aim, in principle and in practice, is to be one of these spaces for dialogue and collaboration.

Thus the journal's objective is simple and yet ambitious: to suggest and encourage close collaboration between economics and sociology and, through its role as an intermediary, to be a vehicle for the diffusion of a social science whose construction is driven by the requirement for pluralism. This pluralism applies as much to the methods used and the theoretical perspectives adopted as to the results. This requirement is obviously consistent with the aims and objectives of the *Association française d'économie politique* (AFEP)5. Its recent president rightly declared, incidentally, that this pluralism 'goes beyond the ideal of tolerance appropriate to all intellectual activities, whether in the natural sciences, the social sciences or any other discipline. Pluralism is a way for the economics community to think about its social role. It is a mechanism for uncovering the interests that are seeking to instrumentalise it'6.

This reconciliation or collaboration takes two forms, none of which is in principle excluded here. These two forms are to be found in the contents of the issues published to date. On the one hand, the collaboration may revolve around common objects, which at the very least makes it possible to adopt interdisciplinary approaches, thereby enriching the effects of the knowledge produced. On the other hand, the collaboration may be focused on common questions, which is more demanding but leads to the production of articles written by several authors from different disciplines. By way of example, we cite below three articles written by scholars from different disciplines that have appeared at intervals in the journal since its inception7:

- Philippe Batifoulier, Jean-Paul Domin, Maryse Gadreau: The changing patient and the construction of a market in health. The French experience. In: *Revue française de socio-économie, n°.01*.
- Didier Demazière, François Horn, Marc Zune: The worlds of *free* in the digital era: a problematic agreement on free software. In: *Revue française de socio-économie, n°.01.*
- Thomas Dallery, Fabien Eloire, Jordan Melmiès: Price setting in situations of uncertainty and competition. Keynes and Whyte at the same table. In: *Revue française de socio-économie, n°.04*.

2. The *RFSE*: a critical stance

Having emerged from a historical context in which mainstream economics occupies a position of hegemony, the *RFSE* was of course born out of a dialectic process in which a feeling of *strength* mingled with a form of frustration. The strength lays in the potential gains to be made by reconnecting with the precepts of political economy, multidisciplinarity and empiricism, or at least the most commendable aspects of those concepts. The *frustration* arose out of our inability to identify, in most French-language journals, a space for academic debate and the diffusion of ideas that might strengthen dialogue, since the journal has from the outset been informed by the notion of a dual embeddedness: of economic phenomena in the social environment and of social phenomena in economic structures.

The performative nature of the dominant economic theory is seldom compatible with this pluralistic epistemology. This orthodox economic theory, characterised as it is by normativity, conceptual esotericism, methodological hermeticism and a weak ability to engage in the debate between civil society and the world of the expert, has frequently led its advocates astray, since the 'science' to which they lay claim is constructed around scientistic 'certainties' that are in fact extremely tenuous. More often than not, it has lost its bearings and failed to recognise that the goal of political economy is to construct knowledge and develop policies based on an analysis of capitalist economies as they function in practice, in all their complexity.

Is it any longer necessary to point out the extent to which mainstream economics has conceptualised itself to the exclusion of all the other social sciences and has, in less than three decades, constructed a clear divide not only within the social sciences but also, and more particularly, within economics itself? In structuring their field8, economists sometimes seem to confuse 'scientific character' with 'scientism'9.

Although it is an avowedly academic publication, the *RFSE* aims also to be one of the possible channels of communication for a community that seeks to fulfil its social role in public debates. This social role is made possible, firstly, by the articles it publishes. These articles, the journal's cornerstone, address the major economic and social problems. Do companies have any responsibility towards the wider society?10 Should care services be provided through family transactions or the market economy?11 What role is played by *numbers* in contemporary public policies, and what social values do they reflect?12 This social role is also being taken on by spaces for debate that have been opened up within and by the *RFSE* and, through the journal, by the members of its editorial board13: editorials, written by one or more of the board's members, set out the journal's political position. Besides the editorial vision and policy set out in issue no. 01[14], the other editorials have focused on the following debates and controversies: equality between men and women, the teaching of economic and social sciences and the unity of the social sciences, the expansion of the student loan scheme, and the founding of the AFEP (*Association française d'économie politique*). Book reviews and a section entitled *Critical Notes* also constitute a pragmatic way of identifying the boundaries of the *RFSE* and defining its scope. They are written by more or less established researchers and thus constitute a space in which the editorial board is able to take on the task of teaching writing and positioning, particularly for the benefit of PhD students.

3. Why a journal?

The *RFSE* is not of course the only space for dialogue and debate in the social sciences. In France, and even more so in the English-speaking world, there are journals whose requirements and aspirations are similar to those that shape the *RFSE's* editorial policy. Apart from the house journals of particular schools of thought, such as the *Revue de la Régulation*, or the *Cahiers d'Economie Politique*, there are excellent journals concerned with particular topics, such as *Formation et Emploi*, or certain thematic issues of *Economies et Sociétés* (*Socio-économie du travail, Œconomia*). Internationally, of course, journals play a comparable role: the *Journal of Socio-Economics*, the *Socio-Economic Review* or the *Journal of Economic Issues*. Nevertheless, there is a theoretical space to be opened up, to be occupied by a multi-thematic, generalist form of socio-economics, both theoretical and applied, with the explicit aim of structuring the academic field. From this point of view, the journal has to be published in French, since the English-speaking world already has this type of journal and even specialist newsletters, such as *Economic Sociology: The European Electronic Newsletter*, whereas such publications can still create some new space in the French debate.

At the same time, the *RFSE* aims to be a genuinely academic journal, that is one that adheres to the rules laid down by the profession[15] and which publishes articles that have been scrutinised by two anonymous referees, with a final decision on acceptance or rejection made by the editorial board. To date, more than 250 French-speaking referees[16] have helped to maintain the *RFSE*, and there are very few articles that have not been enhanced by the frequently stimulating and wide-ranging comments made by these referees and the members of the editorial board. Although they are careful to exercise a degree of caution with regard to externally imposed rules that could undermine the journal's editorial vision and personal approach, the founding members of the *RFSE* are convinced that such a procedure guarantees an objectivity constructed by scholars, and by them alone. Incidentally, this never in principle precludes acceptance for publication of adventurous or provocative articles.

4. What is the *RFSE's* track record to date?

At a time of far-reaching reforms[17], the institutional context of French, and indeed European academic research provide individual scholars with very strong incentives to publish, with all the risks inherent in this frenzy to produce in order automatically to keep pace with the rudimentary performance indicators that have been put in place to assess academics. Nevertheless, the diversification of outlets in the French-speaking world has not to date given rise to the competitive rivalry that some undoubtedly feared. Indeed the contrary is the case. The editorial space and the policy adopted by the editorial board, which sought pragmatically to 'demonstrate movement by walking'[18], have created considerable space for complementarities. Thus several journals simultaneously published special reports on care, a situation that was fairly well received by specialist publications. The same is true of the special report on corporate social responsibility. It might also be noted that very few articles dealing solely with work and employment have been published to date in the *RFSE*. Thus the *RFSE* has not taken the bread out of other journals' mouths, particularly not those jewels in the crown of French heterodox economics that concentrate on work, employment, training or social protection. Experience shows that the *RFSE* has been able to carve out its own niche in the world of academic publishing.

The result to date is certainly not perfect, but what other journal could boast of having achieved perfection? Nevertheless, the publication of two editions a year enables us to uncover a hitherto invisible part of socio-economics in the process of creating itself, and is also a way of encouraging a certain degree of optimism among the most fatalistic.

Thus this adventure (for such indeed it is) has been marked by successes and new developments; the epilogue has not yet been written, but after two full years of existence the furrow it has ploughed is certainly clearly defined. Over and above subjective feelings, the *RFSE* can be proud of having staked out a position for itself on the academic journal scene, as is confirmed by the increasing interest and enthusiasm we have encountered**19** over the past two years. The assertion of plurality has been confirmed. The thematic special reports have dealt (or will soon deal) with care services, corporate social responsibility, modern analyses of capitalism, development, issues around quantification, the new peasantry, representations of the entrepreneur, the social uses of household credit**20** etc. A variety of articles from the leading edge of socio-economic research has supplemented and will continue to supplement this diversified panorama. The authors of these more independent articles include Michel Lallement, François Vatin, François Eymard-Duvernay, Christian Bessy, Roland Canu, Jérôme Denis, Gérald Gaglio, Claude Didry and Jean-Marie Harribey. Their contributions have focused on themes falling within the scope of the three strands identified above: the sociology of markets, social economics and economic analysis of the contemporary capitalist system viewed from a conventionalist, regulationist or institutionalist perspective, or have come under the heading of the sociology of work or economic sociology. They have drawn on a wide diversity of methodologies, ranging from case studies to statistical analysis, via articles focusing more on the theoretical dimension of research.

Firmly established on the scene, the *RFSE* aspires to be not only an academic journal but also a sounding board for the critical strands that run through French society and that the divisions between academic disciplines frequently prevent us from taking seriously. It is by taking on this twofold challenge in a balanced way that it will undoubtedly have won its wager.

Endnotes

1Research team in heterodox economics at the *Centre d'économie de la Sorbonne* (Paris).

2The *Institutions et dynamiques historiques de l'économie* team includes historians, economists and sociologists.

3See *RFSE* special report n°. 03 coordinated by Richard Sobel and Bruno Tinel.

4See *RFSE* editorial n°.01, Bernard Convert, Florence Jany-Catrice, Richard Sobel.

5See the open letter stating the intention to set up the *French Association for Political Economy* on the AFEP website. http://larsg.over-blog.com/article-pour-une-association-francaise-d-economie-politique-38803983.html

6Inaugural speech by André Orléans, 2009. See http://www.assoeconomiepolitique.org/spip.php?article35 .

7In all, 6 articles have been written jointly by scholars from different disciplines. This amounts to almost 10% of the articles published.

8That is the key actors in the social systems determining access to academic positions in economics and in the promotion of academic economists.

9See the open letter by elected members on the *AFEP*'s website. Economics section of the Conseil national des universités: "*L'excellence scientifique* comme prétexte au scientisme" (*Scientific excellence* as a pretext for scientism.

10*RFSE* special report no. 04, published in the 2nd half of 2009. Report coordinated by Nicolas Postel.

11*RFSE* special report no. 02, published in the 2nd half of 2008. Report coordinated by par Florence Jany-Catrice and Chantal Nicole-Drancourt.

12*RFSE* special report no. 05, 1st half 2010. Particular reference is being made here to the article by A. Ogien in this issue on *La valeur sociale du chiffre. La quantification du politique entre performance et démocratie. The social value of numbers. The quantification of policy between performance and democracy.*

13The current composition of the editorial board is as follows: Eveline Baumann (economist), Laurent Bazin (anthropologist), Isabelle Berrebi-Hoffmann (sociologist), Benoit Lallau (economist), Catherine Comet (sociologist), Bernard Convert (sociologist), François Denord (sociologist), François Horn (economist), Hélène Ducourant (sociologist), Florence Jany-Catrice (economist), Danilo Martuccelli (sociologist), Nicolas Postel (economist), Sandrine Rousseau (economist), Richard Sobel (economist), Bruno Tinel (economist), Marie-Hélène Toutin-Trelcat (economist).

14To be found on its website: http://rfse.univ-lille1.fr/projet/editorial.htm

15We have adapted our policy to the (stricter) rules laid down by the economics discipline and which are outlined further on in the main body of the text. Other major and justly renowned journals in other social sciences are not governed by these rules. Thus there is no procedural determinism in this respect. Furthermore, we have added a rule to which our research ethic obliges us to adhere: no member of the current editorial board may publish an article in the *RFSE*.

16With a few exceptions.

17Particularly the 2007 Act on Freedoms and Responsibilities of Universities.

18As set forth in the journal's first editorial written by B. Convert, F. Jany-Catrice and R. Sobel.

19Estimated quantitatively by the number of articles that embark on the evaluation process each month. Currently, we receive on average nine articles per month.

20List of reports in progress or to come. All calls for papers are available on the *RFSE* website.

Response to "Neil Fligstein Answers Questions on the Present Financial Crisis"

By Kenneth R. Zimmerman, PhD

Oregon Public Utility Commission, USA,
ken.zimmerman@state.or.us

The questions put to Dr. Fligstein in the November issue of the journal are critical, in fact very critical, and appropriate. Economists not only missed the current recession but actually the last half dozen major direction changes in the world's economy, not to mention several dozen more local economic crises and upsets. What do they do to earn their salaries? But economic sociologists fared no better. This is an interesting result particularly in light of the heavy criticism economic sociologists have leveled at economists and economics over the last dozen years or so. Dr. Fligstein really never provides specific reasons for economic sociology's failure though the interviewer puts this question to him. He merely notes that, "…economic sociologists did no better at understanding how the American financial sector was building itself up to the current crisis than the economists. I include myself in this regard. This should give us great pause." Indeed it should give economic sociologists pause, and perhaps a chance to "re-think" their discipline.

However, Dr. Fligstein is incorrect that the crisis was not predicted. It was in fact predicted. Studying this prediction will I believe help economic sociologists (and economists, though most will never admit it) figure out "how they missed it" and what they should do next.

On September 7, 2006 (yes, 2006) Nouriel Roubini, a relatively obscure economics professor at New York University announced before an audience of some of the most respected economists in the world at an International Monetary Fund (yes, the I.M.F.) meeting that a financial crisis was brewing and would soon break across the world. There would be within a year a once-in-a-lifetime housing bust, an oil shock, sharply declining consumer confidence, and ultimately a deep recession. He described a world of thousands of mortgage defaults, trillions of dollars lost in mortgage-backed securities, and the global financial system nearly grinding to a halt. Many hedge funds would be crippled if not destroyed, along with investment banks and other major financial institutions like Fannie Mae and Freddie Mac. Needless to say his remarks were met with disbelief, not a few sneers, and several objections to his even being invited to speak. The world economy at the time was not at the top of its game but it was doing well in historical terms and seemed poised to do even better.

How was Roubini able to make this prediction? Was he just lucky, shooting in the dark, or did he know something others did not? By all accounts Roubini is generally a dour person, pessimistic in most circumstances about the economy of the US and the world's economies. These accounts seem accurate enough. However, after speaking with Roubini several other things became clear to me. He does not look at himself as a pessimist but rather a pragmatist, in his words a "realist" who continually searches for and assesses potential risks and vulnerabilities that most others don't look for. He sees himself as "the clear-eyed outsider – unsettling complacency and puncturing pieties."

Several elements in his life story shape this probing pragmatism. Roubini has always been an outsider. Born in Istanbul, the child of Iranian Jews, his family moved to Tehran when he was 2, then to Tel Aviv and finally to Italy, where he grew up and attended college. Then it was a move to the US to pursue his doctorate in international economics at Harvard. Along the way he became fluent in Farsi, Hebrew, Italian and English. His own description of his life is as a "global nomad." At Harvard he displayed an unusual skill set, he was just as comfortable with the arcane mathematics of economics as he was with investigating economic and political institutions. After Harvard he began teaching at Yale and there met and worked with Robert Shiller, the economist who would provide prescient warnings about the 1990s tech bubble crash. Throughout the 1990s Roubini studied the various financial crises that were occurring around the world from China to Argentina, from Brazil to Russia. He noted similarities in the crises. In each instance the country had a large current-account deficit (meaning, basically, the country spent far more than it took in), and these deficits were typically financed by borrowing from abroad in ways that exposed the country to the national equivalent of bank runs. Most of these countries also had poorly regulated banking systems plagued by excessive borrowing and reckless lending and investing. Corporate governance was often weak, with noticeable cronyism. The similarities to the situation in the US in the mid-2000s are obvious. By 2004 Roubini had reached the conclusion that the US was next up for crisis. But the US was not an emerging economy, like China or Brazil. It was the largest economy in the world. It was the customer of last resort for all other economies. Any crisis in the US would not only be larger but would have worldwide consequences and could begin a world recession. With these concerns in mind Roubini began writing and speaking about this upcoming mammoth crisis about to strike.

Roubini's predictions have been criticized from a variety of perspectives. Some call him just a pessimist who was correct, by accident, a couple of times. Anirvan Banerji, the economist who challenged Roubini's first I.M.F. talk, points out that Roubini has been peddling pessimism for years; Banerji contends that Roubini's apparent foresight is nothing more than an unhappy coincidence of events. "Even a stopped clock is right twice a day," Other critique his methodology in arriving at these predictions, calling it "subjective," and out of line with the rigorous quantitative modeling requirements of the economics profession. Many disparage it as analysis by analogy, subject to as many wrong as right guesses, and, more importantly, allowing the economist to assess the world before her/him rather that leaving analysis to analytic (read mathematical) models that spit out so called "objective facts." Roubini feels the need to defend himself from such accusations, noting that he remains a rigorous scholarly economist, whose primary commitment is to the tight analytic models of his discipline. However, Roubini's approach to arriving at the predictions he made at the I.M.F. meeting in 2006 have much to teach both economists and sociologists about understanding and describing markets and other economic actions and actors. In fact, it's my view that these, not the rigorous analytic models of economics or the less analytic and quantitative but no less influential models used by sociologists that should be primary in our attempts to describe and understand economic actions and actors of every sort.

In the social as process actors (of every sort) are continually re-designing the world in which they live. This certainly includes financial actors and the economic arrangements (markets and otherwise) in which they are involved and the devices used for that involvement. Some of this work is subtle and has little overall impact but other work changes large parts of the world. I suggest to you that during the period from 1980 through 2008 a massive re-design of financial markets occurred, and continues today. This re-design was in fact so broad and so deep that just about every other sort of market, economic arrangement, and economic device was modified, often so much so as to be virtually unrecognizable from the perspective of markets, arrangements, and devices that existed just a few years, in some instances just a year or less before. The goals pursued through these arrangements and devices did not change – find the greatest return for money invested and manage the risks to ensuring the highest return possible. But the institutions and devices for that pursuit changed rapidly up till 2008, slowed down during most of 2008, but are now beginning to gain momentum once again.

I make these points to show how Roubini's approach allowed him to predict the economic crisis when other economists did not and why sociologists shared this failure. Roubini's method is one that his fellow economists would label nontechnical and subjective. Roubini made extensive use of transnational comparisons and historical analogies. He did not build a model in order to constrain his subjective impressions and abide by a discrete set of data, the scholarly ideal in economics. In a like manner to Keynes, Roubini surveys vast quantities of economic data over a broad spectrum of topics, looking for clues to what's happening and why. And while he does not completely ignore economic models, quantitative and qualitative, these do not control what he examines or how he makes his examinations. It's my view that the appropriate role for models is as a starting point for research. But no model does, or could ever capture the world in "real-time." Before the economist or sociologist has finished writing up the model and publishing it for all to see and review, the world the model "represents" has been changed by the other actors involved in that world. I'm not suggesting that models be abandoned. If comprehensive and accurate, they provide valuable historical insights into the actors, arrangements, and devices that at one point in time made up a world. But if you really want to describe for others the world that exists today, or at least last week, the only models that matter are those the actors, all the actors in that world have built and the arrangements and devices with which they have populated that world. The models constructed by economists and sociologists are, at best, mere partial and incomplete reflections of what actors have built. Their best chance of depicting accurately and fully what actors have built is to be as closely connected in time and distance to the actual construction work as possible. The notion that transcendent models can be constructed that set out the "basic operating principles" of actors' construction work that can be applied in virtually all situations is a fanciful falsehood that economists and sociologists find comforting. It seems to provide them a level of understanding and thus control not available to the other actors. But what models really engender in both economists and sociologists is a false sense of comfort, complacency, and familiarity. Models hide more than they reveal, deceive more than reveal the facts. No actor, human or otherwise controls any construction process. This includes sociologists and economists. But actors in networks are what make the world go round.

Through chance or predilection, Roubini has selected what is really the only practicable and workable approach for sociologists and economists in seeking to describe and understand the worlds that actors build. Roubini examines all aspects of a world and the work that went into building it. But more than that, he looks for risks and vulnerabilities in that world and he expects to find them. And well he should. The process of constructing arrangements and devices is always risky, uncertain, unfinished, and subject to failure often and along many fronts. So even if actors set out to construct a firm and predictable world, they cannot. They simply do not have that level or expanse of control over final results. Also, Roubini does not assume that some sort of "economic laws or forces" will provide the final explanation and settle all outstanding questions. He seems to recognize and accept that such laws or forces do not exist. Applying this to sociology, sociologists must disabuse themselves of the notion that the "social" provides an explanation for the actions and work of actors. It does not. In fact, the social, as a "thing or force" that explains actor actions simply does not exist. Social is a process, a process of putting together all sorts of disparate actors, tools, texts, rules, equations, etc. to construct a world that lasts for a time (short or long) but is never permanent or fixed. And this process is difficult, time consuming, and very hard work. That's why it often fails and frequently doesn't function as anticipated. No world or its contents is outside this process. And that includes the world of science and those parts of a world called facts.

Like economists sociologists are optimists. They believe that ultimately the world is explainable and can be modeled and predicted (perhaps less so for sociologists). And they believe that "economic" and "social" scientists are the stewards of the methods and theories that will make such modeling and prediction possible, and thus improve human existence. But unfortunately economists and sociologists are also simplistic in their views of the world they set out to model and predict. Moreover, they run away from the complexity of these worlds or hide it under such "technical" terms as "supply and demand," "efficient markets," "social institutions," and "socioeconomic status." These are worse than useless because they often stop anyone looking at what's actually going on. Here too Roubini gives us valuable direction. He is not an optimist.

So after all this why did both economists and sociologists (so called economic sociologists) fail to predict the recession in which we find ourselves mired today? Simply put they failed because they did not see it coming. Or, more accurately, they *could not* see it coming. Their attention was on analytic models, as they had been taught in graduate school and on the methods to apply and expand these models. But the actors and arrangements these models supposedly described had moved on. They continued to build and re-build (which is quite normal) and soon were taking actions and setting up arrangements that simply did not exist in the models. The models could not predict what was not included in them. And even if some economists or sociologists had managed to put the models more "in sync" with current actors, actions, and arrangements it's still unlikely the models would have predicted the crisis. After all they're just models, a simplistic summary of what actors have constructed. So inside the models actions and arrangements could be predicted and explained. Trouble is, the world of the model was not the world of the actors actually inventing, packing, selling, and buying credit default swaps or thinking up new ways to make mortgage loans they were almost certain could not be repaid. Actors are creative, models are not. So models will almost always be wrong. And when actors are particularly creative, as they were in financial markets between 1980 and 2008, and even today, actors' creativity will always leave models behind, often quite quickly. So long as the attention of sociologists and economists is focused primarily on models rather than the creative construction work of actors there is virtually no chance they would notice the end of civilization, let alone the largest recession since the Great Depression.

Fligstein asserts that "Almost no one in sociology really caught up to how the financial sector (defined by the industry categories 'finance, insurance, real estate') in the U.S. increased its share of overall corporate profits in the country to about 40% with 7% of the labor force and 10% of GDP...". I concur. But when questioned about how to avoid such failures in the future Fligstein asserts that the conceptual tools used in *Transformation of Corpo-*

rate Control and the *Architecture of Markets* remain relevant. Here I do not concur. He fleshes this out by concluding "My view of how to study markets focuses on how firms organize particular industries, construct conceptions of control (i.e. ways to make profits and stabilize their relationships to their main competitors), and how this occurs in relation to governments." This is a wonderful example of why he and most other "economic sociologists" missed the current recession. They, like he, assumed they knew the contents and contours of firms, markets, profit, finance, etc. They assumed their books and models had captured these. But they had not, could not.

While sociologists busied themselves with tweaking and applying their models, actors involved in finance were busy turning all the models on their heads. If more attention had been on the work of these actors and less on the models of sociologists not only the contours and contents of a "new economic world" would be noted but also the risks, dangers, and uncertainties of that new world. The dominating financial markets operate in almost exact reverse of the two major themes of Fligstein's model in *The Architecture of Markets* – that markets and companies move toward stabilization and that market-building and state-building go hand-in-hand. In fact movement away from Fligstein's model had been going on for at least 20 years. While Fligstein's efforts in *The Transformation of Corporate Control* are to be admired they still do not fit recent and current financial corporations. He is correct that large corporations' form and operations have been re-designed and re-built over the last 100 years in the interaction of various involved actors, including corporate officers, government regulators and legislators, laws, accounting standards, quantitative devices, and neo-liberal economics. He is correct also that in some instances this re-design and re-building did not meet the requirements of neo-liberal economics – profit maximizing firms blindly competing with one another to become the most efficient and thus most profitable. His view is that firms always take a more moderate path, if available, in order to survive and grow. That is, firms compromise maximum profits in favor of "reasonable" profits and growth along with greater safety. But virtually none of this applies to financial firms of the last 25 years. In a great many instances, especially with the largest of these firms, they are indeed blindly seeking the absolute maximum profits and have no interest in compromising with either the government or other firms in this pursuit. Two goals guide the pursuit of maximum profit – creating new tools to meet this end (e.g., credit default swaps, subprime mortgages) and stopping other firms and government regulators from finding out the details of what's going on, by whatever means are available. This is a more "savage" view of markets and firms that I think Fligstein is comfortable with. He might even consider it a dysfunctional structure. But neo-liberal economists and many government regulators (e.g., Alan Greenspan) do not.

"Following the actors" is more time consuming and considerably more difficult to do correctly than constructing models to explain actor actions. Following the actors means the sociologist and economist must actually accept as real the world the actors construct and must assume the actors, not the economist or sociologist actually is the original builder of the world and what it means. In simple terms sociological and economic models are put in their proper perspective, as at best secondary and derivative of the world observed actors are and have constructed. This "pragmatic turn" does not ensure that the actors' world will always be properly understood or described by the sociologist and economist. But it does improve the odds of this being the result because it shifts the gaze of the sociologist and economist to the ongoing, ephemeral, and fragile construction work done by actors and to the potential risks and uncertainties of that work and its results. And at the same time it deemphasizes sociological and economic models of the world that actors have made. This is the best way to improve the chances that economists and sociologists will not miss the next big economic event, crisis or otherwise.

I close with two examples, one general and the other more specific. I set out these examples not to emphasize the deficiencies of sociology so much as to show that commitment to precisely describing[1] actors' worlds should be of paramount importance. The director of the upcoming movie *The Messenger*, Oren Moverman, emphasized in a recent interview the need to respect the "real world" actors portrayed in the movie enough to "get it right." In other words it's important to him that he accurately grasps the worlds these actors have made and present them accurately on the movie screen. In Moverman's words, "But you do have a responsibility to show things as they are."[2]

In the investigation of scientists and science reported by Bruno Latour in his books *Laboratory Life* and *Science in Action*[3] his investigation is not based on listening to what philosophers say about Truth, nor what sociologists say about Society, and not to what scientists say about Nature. Instead the investigation observes scientists at work. The focus: find out what they do, and not what they say. The results of the work are both instructive and at times quite surprising.

Sociologists should have this same primary focus. But unfortunately they do not. In this regard it is interesting to note the reports now coming from a group of Federal bank regulators doing "post mortems" on some of the about 2,000 banks that have failed over the last two years or so. The reports (called "material loss reports") from these "bank coroners" are quite clear in what they see as the reasons for the death of most of these banks. In almost every instance the "cause of death" was gross mismanagement and regulatory lapses. Two conclusions in the reports are most striking:

- State and federal regulators knew lenders were engaging in hazardous business practices but failed to act until it was too late.

- The financial overseers failed to act quickly and forcefully to rein in runaway banks.

So bank regulators at both the state and federal levels were aware many banks were heavily involved in hazardous lending, taking risks they could not afford but the regulators did not act. Based on the reports it appears this knowledge was in no way secret. So how did economists and sociologists miss it? It's hard to miss an 800 pound gorilla in the elevator, but it's easy when your model says you're in a stairway, or maybe an airport runway; or the gorilla is a fuzzy toy monkey.

Kenneth R. Zimmerman *retired in 2005 as Chief of Energy with the Oklahoma Corporation Commission's Public Utility Division (1985 – 2005), where he oversaw all general rate reviews, resource planning, and engineering/safety reviews of electric, natural gas, and water utilities in the State of Oklahoma. Dr. Zimmerman is now Senior Utility Analyst with the Oregon Public Utility Commission (2005 – Current). His primary responsibilities in the current position are: natural gas price and demand forecasting; natural gas integrated resource planning; the flow through of natural gas costs to end-users by gas utilities; and analysis of the general structure and operation of the current, past, and future networks for energy exploration, production, and distribution (including energy markets). Prior to his work in energy utility regulation, Dr. Zimmerman was a legislative staffer, private consultant, and university professor. Dr. Zimmerman holds PhDs in Sociology/Anthropology and History.*

Endnotes

1 Description is a pragmatic pursuit. Mostly I want to prompt sociologists to accurately translate the worlds actors have made, so that the actors and their worlds, not the sociologist or sociological models show through most clearly.

2 New York Times Movies. November 16, 2009.

3 Latour, Bruno, Steve Woolgar, and Jonas Salk (1986). Laboratory Life. Princeton, NH, Princeton University Press.

Latour, Bruno (1988). Science in Action: How to Follow Scientists and Engineers through Society. Cambridge, Mass., Harvard University Press.

Response to Kenneth Zimmerman

By Neil Fligstein

I appreciate Professor Zimmerman's thoughtful response to my comments about the current financial crisis in *economic sociology_the European electronic newsletter*. I find myself in agreement with much of what he says about model building and forecasting. But I take issue with a couple of his arguments and our differences of opinion are worth unpacking. Sociologists are not really model builders in the sense that economists are. Most of us work discursively and look at firms, industries, and markets. We use lots of different kinds of evidence and there are almost no economic sociologists I know of who have an economist's view of model building. So, while this discussion certainly explains what is wrong with economics in terms of understanding the financial crisis, it has little to do with what is wrong with what economic sociologists do.

My critique of economic sociology was quite different than that to which he eluded. None of the economic sociologists who were studying financial markets and financial instruments saw how dominant the securitization business became and how it penetrated into many other aspects of capitalism. Zimmerman makes the same point repeatedly, but the way out of this problem for him is for scholars to follow a Latourian path. But, the problem with this is that there were a great many scholars using the "social studies of finance" who were following this path and they failed to understand how the system was transforming itself.

I am skeptical that someone studying financial transactions by studying trading rooms in Latour's sociology of science style would ever have grasped that the financial system had in fact evolved in a new and suddenly different direction. Sociologists studying financial markets mainly were being descriptive because their principal method was ethnography or interviews. If they did have a more theoretical argument, it was an abstract kind of neo-marxism arguing that financial flows were large and increasing and thus might potentially undermine the actions of states. I agree with Zimmerman's main point here that the real problem was a lack of paying attention to how the financial system had actually changed and how that mattered. But I disagree that an actor-network approach or a more macro sociological approach would have seen this coming.

This brings me to the critique Professor Zimmerman proposes of my approach to this problem. He asserts two things: that I underestimate how virulent modern financial capitalism is and that we need to study "actors" not firms and markets. I believe he misunderstands my perspective which seeks to understand that the processes of market emergence, stabilization, and decline are understood by looking at the construction of a market as a field. A market coming into existence is different from a market that has matured. In the case of the mortgage market and the markets more generally for securitization products, these markets exploded from the mid 1980s. Indeed, capitalism is at its most virulent at these early stages. Witness the past 150 years of capitalism and these crises are endemic. In this period, the government in the U.S. played a number of important roles in the founding of the market, a role that undermines the view that American regulators were only interested in deregulation.

Professor Zimmerman wants to argue that we need to study "actors" but he seems to dismiss the idea that actors include firms and governments. My response is that what happened in these markets was exactly a co-evolution of regulation and firms. There is good evidence that the largest banks in this period grew in size and market share. Henry Kaufman (an economist whose pessimism has earned him the nickname "Dr. Doom") shows that the top 10 banks in the US went from holding about 10% of financial assets in 1990 to about 50% of such assets in 2003 (2009: 100). Even more intriguing, in the U.S., it is clear that banks began to vertically integrate their participation in these markets and became mortgage loan originators, packagers of such loans into bonds, bond sellers, servicers of those bonds, and holders of those bonds (Fligstein and Goldstein, 2009). How would we even know the structure of the banking industry had changed if we rejected my approach of studying firms, their strategies and structures and how these changed over time?

The most interesting fact to explain about what happened is why did the largest banks hold onto mortgage backed securities based on subprime mortgages which meant that when the market turned down, they faced liquidity crises? This question can only be answered by studying what the firms thought they were doing. This takes us to an analysis of the players in the market. This is exactly the kind of work that my view of markets suggests needs to be done.

Regulators played a complex role, one that is not easily reducible to the idea that they believed in neoliberalism or market fundamentalism. That Alan Greenspan generally thought such markets were efficient and better off left to their devices shows his own disregard for the history of those markets and what actors in those markets were doing. He believed that they would never take on risks that would undermine their firms and he certainly lacked a systemic view of the financial markets. But once those markets started to fall apart, the banker led Bush Treasury Department act quickly put a large cushion under failing banks. In the end, the American government is now the largest holder of mortgages in the U.S. and currently providing backing for 95% of the new mortgages.

The U.S. government was deeply involved in the creation of the mortgage market through its ownership of the government sponsored enterprises that provided somewhere between 60-70% of the mortgages. It was also involved in trying to increase rates of home ownership. We do not totally understand how regulators shared decision premises with bankers, how they came to be captured by bank interests, and how they chose to ignore what were obvious warning signs of problems. For me, the reconstruction of what happened will need some "structural" or "systemic" analysis. How else will we be able to make sense of the complex back and forth between market players (i.e. firms) and between those players and government? The actor network approach with its extreme micro focus will not carry us to analyze the real relationships between the state and the banks which were at the core of the crisis.

References

Fligstein, N./A. Goldstein, 2009: *The Anatomy of the Mortgage Securitization Industry.* Paper presented at the "Financial Markets in Crisis" Conference, at Northwestern University, October 20-22, 2009.

Kaufman, H., 2009: *The Road to Financial Reformation.* New York: Wiley.

Book Reviews

Book: Frank Hillebrandt, 2009: *Praktiken des Tauschens. Zur Soziologie symbolischer Formen der Reziprozität.* Wiesbaden: VS Verlag für Sozialwissenschaften.

Reviewer: Frank Adloff, John F. Kennedy Institute for North American Studies, Freie Universität Berlin, frank.adloff@fu-berlin.de

The last decade has witnessed new and intensive interest in practices of exchange and gift giving. The debate began in French social theory, and its reception has just started in Germany. However, economic sociology has shown little interest in these debates as yet, a fact which is quite astonishing since the notion of exchange lies at the centre of economic activity.

Frank Hillebrandt closes this gap in economic sociology with a book which aims to build a social theory capable of analysing various forms of exchange. He thus lays the foundations for an economic sociology which takes material and symbolic forms of exchange seriously, but which does not fall into the dichotomous trap of reducing exchange either to individualistic calculation or to holistic explanations. His starting point is Pierre Bourdieu's theory of social practices, which also tries to overcome the dichotomy between individualistic and structuralist approaches. According to Hillebrandt, however, Bourdieu has yet to reach the level of an encompassing social theory of practices, and continues to focus too much on questions of power, domination and social inequality. The first part of *Praktiken des Tauschens (Practices of Exchange)* accordingly aims at broadening Bourdieu's approach; the second, entitled *Practice Theory of Exchange*, identifies a variety of symbolic forms of exchange. By doing so, Hillebrandt roots his sociological theory of exchange in a broader concept of cultural sociology.

Part one of the book begins by discussing the social philosophy of praxis (Marx, Castoriadis, Taylor, Cassirer) and then goes on to criticize Bourdieu's narrow understanding of exchange. For Bourdieu, each form of exchange can be reduced to practices of individual advantage and competition, as well as to agonistic strategies. Whereas other commentators (cf. Joas/Knöbl 2009) consequently identify a tendency to utilitarian thinking in Bourdieu, Hillebrandt sees the theoretical problem in an overemphasis on the structural aspects of modern society. Hence, subjects must not be seen simply as instruments of objective and structural aspects of sociality. Acknowledging different forms of practice thus allows for acknowledging different forms of exchange. This sounds plausible, but it may be asked whether we really need to discuss Bourdieu in order to recognize these basic insights. In my understanding, it would suffice to make use of parsimonious theories of social interaction, such as those of Marcel Mauss, Georg Simmel and George Herbert Mead.

Marcel Mauss is indeed the most important theorist in the second part of the book because, according to Hillebrandt, in his essay *The Gift* (1924) Mauss depicts a system of priceless gift exchanges which stands in opposition to trading goods. Hillebrandt takes this distinction between two modes of exchange seriously, but also shows that the distinction is not exclusive and that we can find intermingling forms of both practices. The simultaneity of trade, barter and gift exchange is typical of modern society and constitutes different forms of reciprocal exchange. Even economic exchange, which to a great extent rests on rational calculation, incorporates aspects of another logic of social practice, namely gift exchange. Nor, at the other end of the continuum, is there such a thing as pure altruism. The gift is – here Hillebrandt follows Alain Caillé (2000) – first and foremost a symbol which ties together egoism and altruism, the social and the individual, the profane and the sacred, and thus links it to social practices.

Criticizing other strands of social theory, Hillebrandt makes clear that the gift is no archaic notion which economic exchange is increasingly replacing in modern society. On the contrary, the evolution of money-based trade is the precondition for a clear-cut differentiation of the gift based on its own logic. Only under modern conditions of money-based trade can we set apart the exchange of non-price-based gifts.

Hillebrandt rightly emphasizes that each form of exchange has a symbolic dimension, which must be reconstructed in its own right. His concrete and significant contribution to economic sociology is his differentiation of various forms of exchange. For example, he shows how labour contracts rely on non-price-based dimensions of gift giving; the exchange of gifts is also crucial for initiation and development of business relations. By creating a typology of forms of exchange, Frank Hillebrandt reveals how economic exchange mingles with notions of the gift; in consequence, hybrid forms are normal. Thus, there is no pure economic exchange, but there is also no pure gift. In his typology, Hillebrandt distinguishes three dimensions of exchange. *What* is exchanged? *Who* performs the exchange? And how is time involved in this process? If, for example, an equivalence of goods is exchanged, we can speak of trade and barter. Charitable giving, however, leaves open the question of what is reciprocated, as well as when and to whom it will be reciprocated.

These distinctions are important, but the question arises as to whether this is simply a reminder of the difference between social and economic exchange, a differentiation which Peter Blau (1964) made several decades ago – notwithstanding the central theoretical extension that Hillebrandt provides in focusing on hybrid forms of exchange. Other questions remain open. What differentiates the modern gift from the pre-modern forms which Marcel Mauss described? Marcel Hénaff's (2002) distinction between ceremonial gift exchange (ritualized and publicly performed) and modern gift exchange (individualistic and moralistic) seems to be helpful here. More generally, how useful is it to describe practices of gift-giving in terms of exchange theory? The notion of exchange always brings back the danger of falling into the trap of utilitarian calculation (*do ut des*). Hillebrandt also discusses an alternative, i.e. the notion of mutual recognition, but without thoroughly investigating the possibility of whether – in the realm of the gift – 'recognition' might be a more suitable concept than 'exchange'. One further important aspect, which Hillebrandt omits, is how the risk of the gift should be connected with the notion of trust. The gift is dependent on trust and yet creates trust at the same time. This seems to be the underlying puzzle of social practices which has yet to be resolved.

References:

Caillé, Alain, 2000: *Anthropologie du don. Le tiers paradigme.* Paris: Desclée de Brouwer.

Hénaff, Marcel, 2002: *Le prix de la vérité. Le don. L'argent, la philosophie.* Paris: Éditions du Seuil.

Joas, Hans/Knöbl, Wolfgang, 2009: *Social Theory. Twenty Introductory Lectures.* Cambridge: Cambridge University Press .

Mauss, Marcel, 1990 (1924): *The Gift. The Form and Reason for Exchange in Archaic Societies.* Translated by W.D. Hallis. New York/London: Norton.

Book: Halliday, Terence C. and Bruce G. Carruthers. 2009: *Bankrupt: Global Lawmaking and Systemic Financial Crisis.* Stanford, California: Stanford University Press

Reviewer: Olga Malets, Technische Universität München, olga.malets@tum.de

One of the consequences of the current global financial crisis is obviously a new wave of global norm making and national lawmaking with an explicit goal of creating new rules for the global financial system in order to enhance the stability of the global economy. The new book by Terrence C. Halliday and Bruce G. Carruthers helps to understand the current dynamics of rule-making and institution-building at the global and national levels. Naturally, the contribution of the book is much broader. Halliday and Carruthers develop a comprehensive theory of legal change in the time of globalization when markets become increasingly global while legal systems remain national. They draw on the extensive study of the development of global bankruptcy norms in international organizations and national bankruptcy law in China, Korea and Indonesia before, during and after the Asian financial crisis. Theoretically innovative and empirically sound, the book promises to lay a new ground for studies of globalization of law and markets.

Halliday and Carruthers propose a new framework – the recursivity of law – that emphasizes the cyclical nature of lawmaking and the interconnectedness of its three phases that have been treated separately in most previous research: (1) the making of global norms by international organizations (IOs), (2) lawmaking by national legislators, executives and courts and (3) implementation of national laws by local actors. In the first part of the book, the authors explain how global actors – IOs, including international financial institutions (IFIs), nation-states and professional associations – constructed a set of common bankruptcy norms between 1986 and 2004, although the agreement on a common standard seemed unlikely.

In the second part of the book, Halliday and Carruthers examine the making of national bankruptcy law in Indonesia, Korea and China after the Asian financial crisis broke out. The question is to what extent national law was modelled after global bankruptcy standards. The authors argue that convergence, but not harmonization occurred. This means that, as a result of reforms, all three countries moved their bankruptcy systems closer to the global norms but they never became identical. How could global actors impose global standards on nation-states? IFIs may make their loans conditional on legal reforms. Yet, economic coercion is a less desirable strategy, since it reduces legitimacy of IFIs. Alternatively, they may try to persuade national lawmakers to initiate reforms, provide models for lawmaking and set up positive incentives. The susceptibility of national governments to external pressures and ultimately the degree of proximity between global standards and national laws depends on the balance of power between global and local actors and on the distance between global norms and local legal tradition.

In the third part of the book, the authors identify three processes through which the interplay between the global and the local occurs and the outcomes of national law reforms are shaped. Global actors influence national lawmaking through *intermediation*. They build alliances with local actors and attempt to introduce global norms into national law via transplantation, translation and bricolage. In turn, local actors do not remain passive recipients of global norms. They are not powerless in the face of external pressures and may delay reforms, exploit local knowledge and manipulate local institutions to avoid compliance. Halliday and Carruthers call this process *foiling*. The third process is *recursivity of law*. When national law gets enacted (law-on-books), actors may use different strategies to avoid changing their practices (law-in-practice) as law requires. An implementation gap emerges and sets in motion new cycles of reforms. Halliday and Carruthers identify four mechanisms that cause the implementation gap and corrective action: *actor mismatch*, *diagnostic struggles*, *contradictions* and *indeterminacy of law*.

One of the book's many merits is that together with crafting a theory of legal change, Halliday and Carruthers also contribute to a theory of globalization as a set of complex, nonlinear, incomplete and interconnected processes of market-, rule- and institution-making and change. They challenge simplistic explanations of legal globalization focusing on the role of generalized self-validating cultural norms (world polity theory) or on the power of few global players that impose certain rules on weak nation-states (world systems theory and similar power-based approaches). The authors show that global bankruptcy norms emerge as something more than "globalized localisms". They are a product of negotiation and compromise among powerful and less powerful global actors in international forums. At the same time, local legal constructions and institutions are not merely "localized globalisms" imposed by the most powerful global players on weaker states. Halliday and Carruthers emphasize the *power of the weak* that can use various strategies to undermine the efforts of global actors to impose certain standards on them. "Localized globalisms" emerge therefore as contingent outcomes of a complex interplay between the global and the local.

Moreover, Halliday and Carruthers challenge approaches that seem to overestimate global legal convergence and global consensus on global norms. They convincingly demonstrate that legal and institutional convergence occurs but it is far from complete harmonization. Global norms accommodate variation, and this enables local actors to produce nationally specific laws and practices that often combine both external global and pre-existing indigenous elements.

The study of Halliday and Carruthers also raises some questions that might deserve further research. The authors emphasize that global norm making is an iterative process whereas national lawmaking is recursive. It would be interesting to see whether the experience accumulated by global actors or the problems they face at the national level motivate IOs and experts to modify global norms. It also seems unlikely that global norms would remain unchanged in the face of new challenges in the global economy. Is it possible that contingent external events, such as a global financial crisis, could make global actors rethink existing international standards? And are there similar processes and mechanisms at work?

Overall, this is an extremely well researched innovative book that will shape the thinking of scholars and policymakers about globalization and legal change in years to come. Although the book is focused on bankruptcy law, the reader does not have to be a bankruptcy expert to follow the argument and enjoy the language. Thanks to its broad contribution, the book will become a "must-read" not only for legal scholars and sociologists of law but also to wider academic audiences interested in globalization, institutional and cultural change, international political economy, governance and international relations.

Book: Stark, David, 2009: *The Sense of Dissonance. Accounts of Worth in Economic Life.* Princeton University Press.

Reviewer: Pierre François, Sciences Po, CSO/Ecole Polytechnique, Paris, France, pierre.francois@sciences-po.fr

David Stark's *Sense of Dissonance* is an important attempt to catch the core of the economy in the information age, from both a perspective of sociology of markets – since it deals with one of the most under-invested topics in the field, values – and of organization theory. Search and innovation are the thematic nodes of the book (how is search to be conceived, how is innovation to be produced), and help linking the two fields of research: according to Stark, both search and innovation relies on *dissonance*, i.e. on the existence of multiple evaluative principles and on the frictions following their mobilization by the actors involved in economic activity. Dissonance is therefore crucial to understand both the way values are evaluated (several scales of evaluation being mobilizable to assess the worth of the same good) and produced (Stark underlies the importance of these multiple evaluative principles in the most innovative and/or profitable activities). Since dissonance is so important, explains Stark, it comes to be a crucial asset for organization – and an important part of the book is devoted to the characterization of an organization whose main characteristic is not its ability to manage dissonance, but to produce it. Together with the superb case studies based on ethnographic fieldwork and devoted to very different settings – a factory in late-communist Hungary, a start-up in Sillicon Alley in the late 1990s', and an arbitrage room in Wall Street, one of the many interests of this dense, smart and ambitious book lies in its attempts to match together theoretical traditions that mainly ignored each other until now. More precisely, one could present Stark's work saying that he attempts to discuss mainstreams in U.S. economic sociology and organization theory (neo-institutionalism, network theory and ecology of organization) using European (mostly French) theoretical insights, especially actor-network theory of B. Latour and M. Callon and economics of convention – especially in the recently translated formulation of Boltanski and Thévenot, *On justification*.

Innovation is central to the new economy, Stark explains, but innovation is a somewhat paradoxical process: drawing on Dewey, he proposes to characterize innovation as a process of "recognition of the incognita", therefore involving "a curious cognitive function of what is not yet formulated as a category" (p. 4). In order to succeed in this uncertain quest, one has to be confronted to perplexing situations – and these arise especially when there is no evident consensus about what counts. There are many ways, Stark recalls, to appreciate the value of a good – because several principles of evaluation can be used to evaluate it. Boltanski and Thévenot have developed a whole theoretical framework to describe the scales that can be mobilized to evaluate a situation, a service or a good – and how frictions can emerge from the confrontations of these evaluations (Boltanski and Thevenot, 2006). But while Boltanski and Thévenot (and with them the whole school of the *économie des conventions*) are mainly interested in the way the orders of worth are used to reduce uncertainty and therefore make action possible, Stark's focus is much more on the way the mix of evaluating principles creates uncertainty and yet opens profitable opportunities for action.

And here comes what could be presented as Stark's second main hypothesis, which links him to organization theory: if what is relevant to produce innovation is this coexistence of evaluating principles, then organizations may try to promote this coexistence. Stark suggests that in contemporary economies, specific forms of organization have emerged – Heterarchy – whose main purpose is to promote uncertainty through the gathering, in the same organizational space, several scales of evaluation. "Heterarchy", Stark explains, "represents an organization form of distributed intelligence in which units are laterally accountable according to diverse principles of evaluation" (p. 19). It may not be with the characterization of the specificities of this form of organization that the book appears to be the most original: heterarchy shares many characteristics with other innovation-devoted forms of organization (Dougherty, 2006). But what remains original and extremely insightful is Stark's hypothesis that these characteristics should be conceived as related to the production of dissonance inside the organization or, to put it with his own word, with the "organization of diversity".

The three case studies Stark presents in chapter 2, 3 and 4 are fascinating examples of ethnographic fieldwork carried out in very different organizational settings, even if their links with the theoretical framework are not always obvious, especially in case of the superb analysis of the socialist factory. When Stark describes how Hungarian workers got committed in a kind of capitalist experiment, being allowed to use equipments of the state-owned company during their off-hours in order to produce for an "enterprise work partnership", one faces a wonderful example of coexistence of evaluating principles in the same setting (one socialist, to put it roughly, the other capitalist) – yet the way this dissonance is linked to search and innovation, and even to the creation of value, is not completely explicit. Be that is may, these fieldworks seem to be conceived much more as examples of the heuristics of the framework, than systematic attempts to prove the whole model: in the last pages of his book, Stark explains how his framework should be used to study wider settings, bigger firms and networks, and organizations whose main goal may not be to accumulate profits. David Stark's book surely appears to be very ambitious, since he draws on his idea of dissonance to discuss some of the main concepts of contemporary organization theory and economic sociology: he provides particular insightful discussions of the idea of institution as it is developed by neo-institutionalists (and especially its characteristic of taken-for-grantedness) and, using Dewey's pragmatism, outlines provocative remarks about the way action should be conceived in a world where dissonance plays such an important role. Elaborating on this powerful and general intuition, it clearly appears that Stark's ambition is to sketch the main lines of tomorrow's economy – and of tomorrow's economic sociology: after Fordism whose bureaucracies were accurately described by old neo-institutionalism, after post-Fordism whose network-organizations were analysed by new neo-institutionalism and network theory, the information age needs a new theory. This theory Stark aims to provide. Books have their destiny, the Romans used to say. It is too soon to anticipate the fortune of David Stark's *Sense of Dissonance*. But there is no doubt it constitutes an important contribution to the most cutting-edge debates of contemporary economic sociology and organization theory.

References

Boltanski, L./L. Thévenot, 2006: *On Justification: Economies of Worth.* Princeton: Princeton University Press.

Dougherty, D., 2006: Organizing for Innovation in the 21st Century. In: S. Clegg/C. Hardy/T.B. Lawrence/W.R. Nord, (eds.), *The Sage Handbook of Organization Studies.* London: Sage, 598-618.

PhD Projects Projects in Economic Sociology

The Market for Reputations. Frames, Numbers and Entrepreneurs of Reputation on the Bordeaux Wine Market

Institution: LAPSAC, University of Bordeaux 2

Author: Pierre-Marie Chauvin, pmchauvin@gmail.com

This PhD is based upon a fieldwork including in-depth interviews (N=80), observations and historical source analysis. It focuses on the Bordeaux "Grands Crus" Market by showing how Reputations play a key role in professionals' activities and competition relationships. This is a contribution both to the sociology of markets, the sociological analysis of prices and the understanding of the role of classifications and categories in economic activities. Above all, the PhD suggests a new way of analyzing Status and Reputation by focusing on their links. We consider Status as the result of official and long-term sources of social prestige whereas Reputation is grounded upon more informal and short-term evaluations. The demonstration consists in three steps, from the most official and institutional sources of status to the most informal and volatile sources of personal reputation. In each step, we try to highlight the interdependence, the frictions and the overlaps between Status and Reputation of wine organizations, products and professionals. Hence, often described as a conservative region, the Bordeaux wine region is depicted as heterogeneous and open to controversy.

The first section underlines that wine rankings, as Status Frames for growths and individuals, foster a social closure of the market. Status are grounded on traditional classifications of growths, such as the 1855 classification (Médoc), which was built up by the courtiers according to the prices of the wines and the previous informal categorisations before the mid-19th century. Despite its old age, and even though it was not supposed to last for decades, the classification is still used today by wine professionals to locate growths in a scale of status. Wine classifications illustrate the stability of the status configuration and the difficulty of changing local hierarchies. However, this section also highlights the diversity and the tensions within the local elite while negotiating about the change of wine official hierarchies. We show that multi-level dynamics were in play between local and national actors during the 1960's and the 1970's to change the 1855 classification. The product of this socio-political movement has been very poor compared to the length of the negotiations. Only one growth improved its position: Château Mouton-Rothschild became a First Growth thanks to an efficient multi-level lobbying.

The second section focuses on Reputation Numbers (prices and rates), which are embedded in the status configuration and in the social organization of the "place de Bordeaux" (Producers-Courtiers-Négociants) without being the pure and simple reproduction of Wine official rankings. The study of the release of "en primeurs" prices and the role of critics' rates leads us to assess the consequences of commensuration on the building of wine values. The easy circulation of prices and rates within the wine community during "en primeurs" campaigns exerts a social control over producers before and after the release of their wines. Before the release, the memory of their previous prices and the rates allocated to their wines play a key role in the decision on prices. After the release, the professional community's reactions to the prices lead them to adapt or moderate their strategy in the next campaigns. Building a new status through prices is not a short-term enterprise: pricing is not only a question of costs, it notably requires a dynamics of positive judgments by the main value-makers of the market. In other words, producers take into account the reputation of vintages and wines fostered by the main "third-parties" of the market.

The third section studies how wine "entrepreneurs" deal with the different sources of reputation above-mentioned. We focus on winemaker's "signature" in order to show how it represents a rising source of reputation for wines and growths. Instead of undermining the role of "terroir" and official rankings in the building of prestige, the professional reputation of winemakers themselves is closely linked to the status of the Chateau they work(ed) for. Hence, reputation is studied through its transfers between different kinds of actors (entrepreneurs, organizations, "third-parties") but also through its frontiers between territories and categories of products. We highlight how the controversial category of "garage wines" is both opposed and linked to the traditional status configuration. Finally, our work offers a contribution to the sociological theories of entrepreneurship (Stark, Zalio) by focusing on categories and evaluations' overlaps in wine activities. We especially underline how these overlaps are perceived, produced and used by newcomers which (re)combine reflexively their affiliations to exploit status dissonance.

Key-words : Reputation ; Status ; Market ; Classifications ; Economic Sociology ; Entrepreneurship ; Wine.

The Medicine and its Double. Sociology of The French Market of Generic Drugs (1995-2009).

Institution: IDHE, Université Paris Ouest-Nanterre La Défense, Paris, France.

Author: Etienne Nouguez, enouguez@u-paris10.fr

In the beginning and in the heart of this thesis one finds this quasi experimental situation which patients face every day in french pharmacies: they are expected to choose between two drugs which are presented as identical in essence but which do not look the same. Moreover, both drugs are not sold for the same price but they are reimbursed identically (i.e. integrally in most cases) by social and private insurances. Patients but also prescribers wonder then about the value of these copies: are the generic drugs equivalent to and (then) substituable for the original (princeps) drugs, as the public authorities guarantee, or are they just pale copies whose quality is questionnable? And why would patients prefer the cheapest when the price difference between both drugs is reimbursed? These questions echo those that were asked by the sociologists on the economic theory of perfect competition: on what conditions can two products be considered as homogeneous, i.e perfectly equivalent? And on what conditions can prices be the main support of coordination and competition between suppliers and the demanders?

The French market of generic drugs, whose story really begins in the 1990s appeared to me as an ideal field to study the process through which the model of perfect competition was (or was not) performed in real economy. I followed the generic drugs all along the "valuation chain" through which they process: in the law which defines their physical and juridical properties, in the pharmaceutical companies which shape and market them, in the interactions between physicians, pharmacists and patients who choose to substitute them (or not) for the original drugs, and finally in the body of the patient where they are diffused1. I showed that each of these places can be seen as a trial in which the generic drug acquire a value by confronting itself not only to the original drug but also to a complex system of therapeutic, financial, professionnal and moral values which original drugs embody.

Firstly the thesis examines the condition of "homogeneity" which is at the heart of the model of perfect competition through analysing the processes of "qualification" which make the equivalency and the substitution between the drugs either easier or more challenging. During the observations made in pharmacies and in doctors'consulting rooms as well as in the interviews, two definitions of equivalency between original and generic drugs were competing. On the one hand, the legal definition of generic drugs, which is based on rational pharmacology, considers that only the "essence" of a drug (i.e its active constituents and its mode of diffusion in the body) should remain identical to the original drug; if both essences are identical, the effect of both drugs should also be the same. On the other hand, some patients and doctors argue that the way that the drug is packaged, displayed and used plays an active role in its efficiency; even if both drugs have the same essence, the substitution may disrupt the context of compliance and perform different effects, in particular nocebo effects, as their cheaper price and appearance break the belief of the patient in the quality and the effectiveness of their treatment. The importance of the dissonances between these definitions depends on the type of drug and the type of patient but it explains why the original drugs keep important shares on the market even though they are sold at a (30 % to 50 %) higher price. Thus, as I showed in the case of protons pump inhibitors' market, these dissonances are used by some pharmaceutical firms in order to promote "new" drugs which are in fact slightly modified and freshly patented forms of old drugs ; doctors are then sucessfully incited by these firms to prescribe these new drugs instead of the older, genericable ones.

Secondly, I examine the role of the prices on the valuation of generic drugs and on the organization of the market. In many respects, this market could be interpreted as an economy without price. Obviously, the drugs have prices but these are set by the State and mainly reimbursed through the French social insurance system. In these conditions, the prices do not necessarily balance supply and demand. How could the price difference between original and generic drugs be promoted when prices were not at the centre of the competition? The first move of the French public authorities was to rely on the prescribers to promote the substitution with the patients. In this policy of exhortation, the french doctors were supposed to present the lower price of the generic drugs as an ethical quality and the choice of these drugs as a civic act. But, as the french doctors were reluctant to play such a role, the public authorities gave to the pharmacists the legal right to substitute any generic drug for its original without the consent of the doctor (but with the consent of patients!). This measure deeply changed the power relation and the value hierarchy between both professions; pharmacists used this new role as a way to increase their financial and political value, as they became the main "partner" of public authorities and generic firms in the promotion of generic drugs on the French market. But public authorities considered that the market was not growing fast enough and 2006 they decided to promote a new policy relying directly on the financiary interest of the patients: they are not reimbursed for the price difference and/or they must pay the drugs expenses in advance if they choose the original drugs. This second policy appeared to be very effective, as the share of generic drugs in the market of genericable drugs jumped from 60 % in 2006 to 85 % in 2009.

From 2006, the French market of generic drugs can then be seen as a real performation of the perfect competition model. But, all through the thesis it is shown that this performation is based on a very subtle management which involved a great number of actors (laboratories, doctors, pharmacists, patients), devices (drugs qualities, price levels, reimbursement clauses) and principles of valuation (therapeutic, moral, political, financial).

Endnotes

1This thesis is based on 160 interviews with pharmacists, patients, physicians, directors of pharmaceutical companies and members of french publics authorities. I made a series of observations behind the counter of four Parisian pharmacies, which allowed me to see the material devices and the arguments involved in the comparison of generic and original drugs. I also used statistics (which were published by the "Assurance Maladie") in order to measure the penetration of the generic drugs on the global market of drugs or on some specific therapeutic classes or local markets.

.

Editors of the Economic Sociology European Electronic Newsletter

1999-2000	Richard Swedberg
2000-2001	Johan Heilbron
2001-2002	Jens Beckert
2002-2003	Frederic Lebaron
2003-2004	Patrik Aspers
2004-2005	Olav Velthuis
2005-2006	Olav Velthuis
2006-2007	Nina Bandelj
2007-2008	Patrik Aspers
2008-2009	Andrea Mennicken
2009-	Philippe Steiner

economic sociology_the european electronic newsletter
http://econsoc.mpifg.de | ISSN 1871-3351

aim of the newsletter
economic sociology_the european electronic newsletter provides information for scholars interested in economic sociology, with an emphasis on events and developments in Europe. The newsletter is driven by the idea of free access to information and open communication.

contributions
Please send contributions, suggestions and input to the editor.

publishing information
economic sociology_the european electronic newsletter is part of *economic sociology_the european website*, which is maintained by researchers and staff of the Max Planck Institute for the Study of Societies in Cologne. The newsletter is published three times a year as a PDF and an HTML document. The PDF can be downloaded free of charge. Back issues are available on the website.

subscription
You can receive *economic sociology_the european electronic newsletter* via email. Please subscribe at http://econsoc.mpifg.de -> Newsletter -> Subscription

editorial office
Max Planck Institute for the Study of Societies | Paulstr. 3 | 50676 Cologne | Germany