

## INTERVIEW

# An interview with Bruce Carruthers: “I am Certainly not On the “Let’s Make Capitalism Better Side” (English Version)\*



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*Bruce Carruthers is one of the famous modern American/Canadian sociologists (he has dual citizenship) who investigates financial world and related to money and credit issues. Since 2005 to 2006 he was elected as the Chair of Economic Sociology Section of the American Sociological Association. His articles are published in major and most influential handbooks of Economic Sociology, in particular in the second edition of the Handbook of Economic Sociology [Carruthers 2005]. Bruce Carruthers received a Bachelor’s degree in Communication at Simon Fraser University (Canada), Master’s degree in Sociology at Rutgers University (USA) and PhD in Sociology at the University of Chicago in 1991. He was Gerald F. and Marjorie G. Fitzgerald Professor of Economic History (2006-2009) and Katherine Hampson Bessel Visiting Fellow at Radcliffe Institute for Advanced Study at Harvard University (2006-2007). Since 2004 to 2006 he was the Chair of the Department of Sociology at Northwestern University. He is an author of five books.*

—*Erik Olin Wright in his interview to the journal mentioned that Economic Sociology has two faces: a critical face that questions the way economists fetishize the market and a pragmatic face that helps business to operate in a more sociologically sensible way [Krylov, Loginov 2010a]. Do you agree with such division?*

—I do. I think it’s an intellectual division, but it is also an organizational division. So if you want to find the “pragmatic” wing of Economic Sociology, all you need to do is to look at all the economic sociologists that work in business schools. People who have PhDs in Sociology and who are at the University of Chicago Booth School of Business, or MIT Sloan School of Management, or the Harvard Business School, are clearly interested in giving their MBA students new tools to make money.

For example, consider Ron Burt’s stuff on brokerage: if I want to be a broker, I have to find structural holes and put myself in the middle of them [Burt 2005]. This insight has a very nice “recipe” quality and it’s not something that is taught in a finance or accounting class. It’s part of a new set of tools that are about social networks and what moves through social networks and what not. And it can be quite advantageous but clearly it is not a kind of Erik Wright query:

\* First published in Russian: Krylov D., Loginov G. 2011. ““I am Certainly not On the “Let’s Make Capitalism Better Side”. An Interview with Bruce Carruthers. *Economic Sociology*. 01 (12): 7-24.

“Is capitalism just?” or “How do we temper or meliorate its mal-distributive consequences?” Business school students are not interested in overturning or transforming capitalism.

That is why I think Erik Wright is right, the decision about which brand of Economic Sociology you wish to pursue is quite simple. It turns a lot on whether you decide to go and work in a business school. And of course, if you do, you have certain opportunities, because there is a lot more money in business schools and the salaries that are paid to sociologists are much higher. For instance, an assistant professor, working for Northwestern’s business school the Kellogg School of Management, makes roughly double what a social science assistant professor earns at the Northwestern.

Moreover, over time you as a business school professor develop your own networks to your students and former students who are now in corporations or working in business around the country, and you can use those relations to get data. For example, if I want to access data, if I want to approach some investment banking firm, if I’m really interested in understanding the social network of financial transactions, I could ask bankers or brokers for access. They are going to look at me and say “You’re a sociologist! Probably you’ll say something critical and embarrassing about us, so forget it! We don’t know you, who are you?” But if I taught in a business school and had contacts, and some of those people were my former students, and I was a reasonable guy, maybe they would open up the doors and let me have access to their data. So it really does shape the kind of opportunities and approach that people have.

—*How would you then describe your research in these terms?*

—I am certainly not on the let’s-make-capitalism-better side. But I would say I don’t have as strong a political motivation for my research as Erik Wright does. He is of a different generation, he is older, he was much more caught up with the neo-Marxist surge of the 1960-1970s. I was a little too young for that, so I could take it for granted. But I definitely think critically about the distributive consequences of a market economy.

When I teach my undergraduate class in Economic Sociology the last part of the class is all about economic inequality. We have these wonderfully interesting institutions called markets. And I try to invite my students to think about what is a market, how it works, what are the foundations for markets. And then we spend a little time thinking about the consequences.

If markets are partly allocative mechanisms that unevenly distribute the value of the society, I want them to appreciate that it’s not purely meritocratic mechanism and the various logics of allocation are worth thinking about. Maybe they should not be happy or satisfied with a particular distribution examples that the market generates. Since I’m teaching the class right now, when we get to that section in my class, I will probably make reference to the current controversy over the bankers’ bonuses; so, in the *New York Times* it’s a big deal. There is going to be a testimony before Congress<sup>1</sup>, and politicians and the American people are all excited and upset about the fact that the economy shrank, and many people are unemployed and their incomes have dropped, but *Goldman Sachs* is making more money than ever before<sup>2</sup>.

<sup>1</sup> U.S. Securities and Exchange Commission filed a lawsuit against Goldman Sachs, accusing the bank of securities fraud. Three months after the hearings in the Congress, the largest investment bank paid the SEC \$ 550 million in exchange for a withdrawal of charges. – *Hereinafter notes made by DK & GL.*

<sup>2</sup> Goldman Sachs earned daily at least \$25 million during the first quarter of 2010, reports *The Wall Street Journal*. The bank’s top-managers argued that a proper risk management and the stock market boom were the reasons for their success. Nevertheless, the total profit of 14 largest global investment banks for a quarter was \$78.8 bln. “It is the best result for the past three years. Moreover, this figure is only 1% below the historical record”, wrote *Vedomosti*. Net profit of GS in the second quarter of this year was \$613 mln, instead of \$3.4 bln last year. (<http://www.vedomosti.ru/companies/news/2010/05/11/1012051>).

For me it's very interesting to ask a question like "Why has a market economy produced that unusually discrepant outcome, where lots of people do poorly but a small group does incredibly well?" And it's also very interesting when that uneven distribution becomes a political issue. Why is it that the American people don't just say, "Oh it's the market forces! Whatever the market forces produce, that's fine by me!" So I would say that I am mindful of those points of the current market economy about which one can be critical, but I also tend to be very historical in my orientation.

My first book *City of Capital* was about the rise of the London stock market in the XVIIth and XVIIIth century [Carruthers 1996]. It was a very political process, but the kind of politics that shaped it are irrelevant now. It was a big fight between the Whigs and the Tories. No one cares about the Whigs and the Tories anymore, and they are historical artifacts. But for my study I had to think about the nature of politics and how political conflict shaped a marketplace. Personally I was not invested in those politics, and no one else is these days. But that was a way of appreciating the connection between politics and markets. And if I were to take that appreciation and bring it up to the current era, then of course it would be politics that I cared about, and that other people cared about. So it would be a different exercise.

—*Could you please name a salient book for teaching purposes that was written in the last five-ten years in the field of economic sociology?*

—There are lots of those. The ones that I use in the undergraduate class I teach are a little bit older, but one that I always use, because I like it so much, is called *Charismatic Capitalism* [Biggart 1989]. It's an ethnography of direct sales. Direct sales organizations are things like *Amway*, and there's a whole business model there. The value of the book for teaching purposes is that it's ethnography. So it's well written, there are lots of vivid examples, involving people and stories, lots of qualitative data, so the students can easily appreciate the information and comprehend it. It also gets people to think about what are the social aspects of market transactions and how social networks get deployed and used in business. So it's useful that way, for teaching.

I like very much *Searching for a Corporate Savior* [Khurana 2002]. Rakesh Khurana is one of the people who teach at the Harvard Business School<sup>3</sup>. He has a PhD in Organization Behavior, I think, and I believe he had sociologists on his committee. Khurana studied how big American firms go about looking for new CEOs. If you're a classic Chicago School economist, you say, ok, there is a market for corporate governance and a market for corporate control. And if the market is competitive, then probably the outcomes are pretty good, and if they aren't, you replace the CEO. What Khurana does is deploy really interesting qualitative and quantitative data to show how irrational the process is, and in ways that obviously affect corporate performance. It's a way of going right into the boardrooms of major American corporations and showing that even for the most consequential choice or decision, namely, who's going to be your next leader, there are all kinds of social processes that work, and by no stretch of the imagination is it a rational process.

Because everyone talks about the crisis, I think the book *Managed by the Market* [Davis 2009] which just came out, will be useful because it's a very nice macroscopic overview of a lot of changes that have been going on in American capitalism. It's a book that's well timed. I think he's been working on it for quite a while, but he managed to pull it all together just as the crisis unfolded. So for lots of people who are looking for a big picture analysis it will help explain why we ended up in this terrible situation.

—*In the description of the Economic Sociology course you wrote that the course "poses the key idea of embeddedness and develops it by exploring various connections between economic behavior and social*

<sup>3</sup> Rakesh Khurana is the Marvin Bower Professor of Leadership Development at the Harvard Business School. He received his BS from Cornell University and his AM (Sociology) and Ph.D. in Organization Behavior from Harvard University. His recent books are: [Khurana 2007; Nitin, Khurana 2010].

*processes and relations*". Could we now define New Economic Sociology as a field which explores the embeddedness issue as opposed to a definition in one of your papers which defines Economic Sociology as "what Economics is not" [Carruthers 2006]?

—I guess I put those two things together by saying that economists don't do embeddedness, and therefore if we do embeddedness we are simultaneously exploring a sociological topic, and we are not doing what the economists do.

To be fair to economists, I think there are subgroups, who are discovering that social networks are interesting phenomenon and may affect how market behavior unfolds. So it's not as if they are averse to invading some new territory, and in fact that's been the impulse of a lot of Economics since Gary Becker<sup>4</sup>. His career was built around taking economic tools into nontraditional topics. So instead of just studying markets Becker studied discrimination or the family, or politics. It's a way of taking a model and appropriating other kinds of social behavior and saying, "Ok we can view this using our economic tools."

The idea is that there might be some interesting things going on in social networks and economists should try to figure that out, too. I don't believe that there's anything sacrosanct about sociological topics. I think that how economists will think about things like social networks is obviously going to be different from how sociologists do. But it's a boundary that obviously migrates.

I think in its origin – and here Mark Granovetter's article [Granovetter 1985] is pretty exemplary, – and reemergence, Economic Sociology was often too closely built around a critique of Economics; so it was very much like "Here's what economists do, we're not going to do that, we are going to do something different." A critical stance can be useful, but then it's time to do something more positive and to stop worrying about what economists are doing, and just worry about what you're doing as a collective intellectual enterprise.

It's good that some of the more virulent anti-Economics impulses of people have been tempered and moved beyond. I read the National Bureau of Economic Research (NBER)<sup>5</sup> stuff all the time, for example. I'm always looking on their webpage to see what new papers are coming out and I know lots of other sociologists who do that as well. And I conclude that we are big consumers of economics. We're not afraid to touch it, as if we'll be somehow polluted or contaminated. And some areas of economics are becoming very sociological.

—*Could you please give an example?*

—I read a lot of economic history. Once you start to think about how production worked in Renaissance Italy or how business relations worked in India in the XVIIIth century, even if you're a hardcore economist, sometimes you have to acknowledge that things are different, and you can't treat everything as if it were like the Chicago Mercantile Exchange (CME) circa 1990. There's just too many differences in property rights, social institutions, and what you would call transaction costs. So economists really have to stretch their model to accommodate these other times and places. One of the things I like about Economic History is that by virtue of the things that they are studying, economic historians were sometimes forced to become pretty sociological, even if they don't want to admit it, because, of course, it's forbidden. But they

<sup>4</sup> Interview with Gary Becker read in [Krylov, Loginov 2010b].

<sup>5</sup> The National Bureau of Economic Research is the leading nonprofit private and nonpartisan research organization based in Cambridge (USA, MA). Economists at the NBER are focused on four main topics: developing new statistical measurements, estimating quantitative models of economic behavior, assessing the economic effects of public policies, and projecting the effects of alternative policy proposals. It was established in 1920 and 16 of the 31 American Nobel Prize winners in Economics have been researches at the NBER (<http://www.nber.org/info.html>).

are pushed to because that's the way their evidence works. The simple tools or the direct approach doesn't really comprehend the phenomena.

For instance, an economic historian Avner Greif at Stanford<sup>6</sup> is someone who's clearly thinking, "I need some Sociology here if I want to think about what the nature of an institution is or why institutions shape economic behavior". He's pretty honest about the fact he reads sociology, he talks to sociologists. He's not afraid of contamination.

—*In March 2010 a new book "Money and Credit: A Sociological Approach" will be published [Ariovich, Carruthers 2010]<sup>7</sup>. As Mark Granovetter said about this work, "Carruthers and Ariovich view the mysteries of money and credit through a distinctively sociological lens". What we will see through such lens and what kind of mystery is Granovetter talking about?*

—That's a very kind remark from Mark Granovetter. As to what he means exactly, what he is referring to, you should ask him. But I'm of course happy to receive such a remark.

The book is not a research monograph, it was really an attempt to draw on existing literature and to think about money and credit from a sociological perspective. We didn't do any new research. We basically tried to pull together the research that had already been done. It's more of a synthetic essay than breaking new ground with new data or new results. The kinds of things that we talk about are (obviously) money, and there is a well known thread in the Sociology of Money, that starts with Simmel [Simmel 1900], and then with ups and downs goes through Viviana Zelizer, who has well known works on money [Zelizer 1994].

Laura Ariovich<sup>8</sup> and I decided to try to expand and develop insights on the gold standard, fiat money, and to take Zelizer's insights about the social meaning of money and try to expand them, because they are not just applicable in the domestic sphere of which she talks in her book. Zelizer talks mostly about how money is used and shaped socially within households and how there's pin money and earmarking that happens within households, in an attempt to undermine the fungibility of money by giving it a special social meaning, and so on.

We thought that's a nice idea, but why should we just talk about what happens in households? Because we know in the economy most of the uses of money are between firms and organizations, not just inside households, we can talk about fungibility in social meaning at that level. That is what we attempt in the chapter on money.

We also look at credit, not only for corporations, but also credit for individuals. And this is related to another project I've been working on that unfortunately is not yet forthcoming. But I hope soon to finish this other book, which is historical sociology of credit (tentatively entitled *The Economy of Promises: The Origins of Credit Rating in XIXth century*).

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<sup>6</sup> Avner Greif is Bowman Family Professor in the Humanities and Sciences, Professor of Economic, and Senior Fellow at Freeman Spogli Institute for International Studies at Stanford. His recent book is [Greif 2006].

<sup>7</sup> The book can be bought via the leading American and European on-line bookstores now and also there is an opportunity to read some parts of it at GoogleBooks.

<sup>8</sup> Laura Ariovich was Becaria Superior at the University of Buenos Aires until September, 2009. In 2007 she received her PhD in Sociology from Northwestern University.

—*What we could learn from this book?*

—Credit is an economically important relationship because modern economies are always credit economies. It's a very sociologically interesting relationship, because it's all about trust and how lenders decide who they can trust and how they manage that problem. And the problem is a very old one.

For instance, you can study bankers in Renaissance Florence and you'll find they are all worried about how to tell who they can lend money to, and who's going to repay it. Obviously, lenders still worry about that (or at least they should). But the mechanisms and the devices that are available to them to interrogate, to answer that question, or at least to resolve that issue, have changed enormously. I think it is a very interesting sociological change.

In the case of the U.S. in the XIX and XX centuries, which I know better than Renaissance Florence, you can look at bank lending in the early XIXth century. There's been a very detailed study done about New England's banks by an economic historian Naomi Lamoreaux<sup>9</sup>. She uses the term *insider lending* to characterize the process, because in a nutshell all of the lending that went on with these banks was through social networks. So what is it about social networks that helps perceptions of the trustworthiness of a potential borrower? Well, sociologically it's not hard to explain why it might be the case. Then what happens over the course of the XIX century is that bank lending becomes less directly embedded in social ties and credit starts to extend more to strangers, to people that lenders are not connected to through social ties. And what makes this possible?

The other object I've been working on is the rise of credit rating. Currently we know that *Moody's* and *Standard & Poor's* play a very important role in the operation of capital markets, because they give a credit rating to bonds and issues. It turns out that that method of taking lots of information and boiling it down to a single summary measure called a credit rating was invented in the U.S. in 1840-1850s and it eventually got adopted for corporate finance. But in its origin it was used for unsecured short-term trade credit. The methods that were forged at that point in 1850s by the precursors of *Dun & Bradstreet* are essentially the same methods that were adopted by John Moody. And in 1909 he began to analyze railway bonds and moved the method to a slightly different sphere, from trade credit to bonds. One of the things gained by the invention of that method was that it made it possible for people to lend to strangers. They could lend to someone they had no network connections to. Consequently, it provided a way of expanding the volume of credit, but it happened in a very institutionally connected way, that is, somebody had to invent an informational device called credit rating in order to solve this problem.

—*The next question is derived from a description of your book "Money and Credit" made by Frank Dobbin. Why do modern currency and credit markets "fail to stabilize the value of goods"?*

—Economic sociologists as well as everyone else were excited by the current economic crisis. And we're interested in it because it really shows the limits of the neo-liberal approach: that markets can be self-regulating, that private risk management will take care of itself.

One of the other issues, that appeared to be closed off and settled, was the nature of value. How do we know what the value of something is? This issue sounds very philosophical and abstract, but it can be very concrete when it concerns things like what are the values of assets in a bank's portfolio. How would you answer the question of value when the market that you would normally use to signal value, is frozen? So here's this big mechanism (the market) that tells people what things are worth, and it stops working. It was a public answer; it wasn't like a private signal to someone. It was one that everyone would consider the real value, and we can all calibrate our own calculations and decisions with market prices.

<sup>9</sup> Naomi Lamoreaux is Professor of Economics and History at Yale and Professor of Law at UCLA, and Professor of Economics and History at UCLA. Her recent book are: [Clarke, Lamoreaux, Usselman 2007; Lamoreaux, Sokoloff 2007].

—*What happens when the market mechanism stops working?*

—There was a sociologically very interesting argument over accounting standards. People have started to appreciate that maybe the market value and the “fundamental”, or “true” value differ. What happens when these things become discrepant? Do you discount the market value? Do you discount the fundamental value, or how do you calculate the fundamental value? Probably, it’s a model-dependent estimation, you have to have a model of what value is, and then you apply the model and the thing is you get an answer that is different from what market value is. Or in some cases you don’t know market value at all.

That’s why there has been that very interesting discussion recently on *fair* value accounting [Plantin, Sapra, Shin 2008]. It reveals the fact that accounting standards and valuation is an activity; it’s not just about fundamental truth in the sense of a Platonic ideal of value, and whether something is a good estimate or not? It’s also about the pragmatics of what we do with these estimates of value further. If there’s a practical matter, if market values plunge or become unknowable in such a way that a bank has now violated the capital standards that regulators put in place, their assets drop in value so they have to liquidate some of them in order to bolster their capital. As a practical matter, if everyone does this, suddenly there is a downward spiral: banks need to raise more capital because their assets dropped in value, they all sell their assets and when everyone sells, the value drops even more. People are thinking if adhering to market value as *the* standard for what are these assets really worth, if that’s off on a downward spiral.

Maybe that’s not such a good standard, maybe we should come up with a different standard? Maybe it’s a standard that is going to cause unwelcome feedbacks when you’re in the midst of a financial crisis or a financial downturn. People start to think about standards a little differently, it’s not about what the true value of something is, it is about what the pragmatically useful way to value things is. And so they start to shift standards.

When markets are behaving normally, fair value accounting is good, but then there are periods, when markets go off the rails: markets are doing stupid things, market’s don’t know what the hell is going on, markets are illiquid or they are sparse. Then let’s suspend or relax fair value accounting and then let’s do some sort of combination between market value and fundamental value or long-term value. Otherwise we going to get caught in this downward spiral and that will be bad for everyone.

One of the things that is fairly interesting to me is looking at this unfold in the context of the current crisis, and realizing how much of what we are doing now, how much of that debate is really a repetition of an earlier debate that happened in the 1930s, when the U.S. government was trying to bolster the housing market.

Then as now lots of borrowers were behind on their mortgage payments, and they were in foreclosure as they violated the terms of their mortgage loans. So the banks were going to repossess and suddenly the banks would take over a bunch of houses, and then they would sell them because banks don’t collect houses. They just want to collect the money so they would sell them, and this would make the problem even worse because there suddenly would be a bunch of houses that would be sold in the market, and the value of the homes would plunge even more, and even more mortgages would be underwater. Consequently, there’s the same kind of downward spiral where just paying attention to market value might cause a bunch of people to do things that would drive market value down even further, and exacerbate the problem and make for lots of unhappy homeowners.

The political imperative to save the housing market was so important that it trumped a kind of mindless fetishization of market value. That is, market value as a standard tool is fine as long as the markets are doing their job, but we’re not going to adhere to market value if markets are screwing up and if they are producing consequences that are making lots and lots of people unhappy.

It was a wonderful illustration of the political foundations of markets, and the fact that even in a capitalist democracy that is stridently in favor of markets, as is the USA. There are political moments when they throw markets and market prices out the window and look for something else that will solve the problem. In 1930s it was a problem of helping the home owners when the market price of their homes had plunged. You impose a value, you dictate through a government policy a home value that was actually higher than what the market was saying but it worked. Today that debate is also being repeated, but now it's not about home owners, there is different machinery that deals with that, it's more about the financial institutions. Do we have fair value accounting when it is probably going to make or force banks in the crisis to unload lots of their assets in the way that will exacerbate the crisis?

—In a book “*Bankrupt*” [Carruthers, Halliday 2009] you and Terence Halliday<sup>10</sup> described three phases of a global norm for corporate bankruptcy in the past thirty years. Should we expect the fourth phase because of the current crisis?

—That's a very interesting question. That book was about the previous crisis of 1997-1998<sup>11</sup>. The difference between it and the current one is that the Asian financial crisis was obviously a regional crisis, it was one that threatened to expand beyond East Asia, but it did not. It was taken at the time to be proof that the East Asian state-led developmental model was in fact limited. Countries like South Korea, Thailand and Indonesia needed to reengineer their basic institutions, they needed to change their model, and they needed to do so in a way that was more in the direction of Anglo-American institutions. The IMF and U.S. Treasury Department in some respect treated the Asian financial crisis as a triumphalist moment. These economies have been hugely successful over decades, they had very high growth rates. South Korea went from being a very impoverished, very poor country in the mid-1950s to joining the OECD in the mid-1990s.

So whatever they were doing, it was very successful in terms of economic growth. But it ended with the crisis and the economies that fell into this crisis were the ones that the IMF would ordinarily think it shouldn't worry about. These countries had lots of exports, a convertible currency, balanced budgets and development, so all of the normal macroeconomic signals of trouble were absent but still they got into terrible trouble.

The IMF and the USA, and various other bodies involved in the diagnosis of the 1997-1998 crisis, decided that there's too much *crony capitalism* in Indonesia, Thailand and South Korea. The problem has been that the basic institutions of law and regulation and of corporate governance are flawed. The recommendation was that they needed to change their laws and to have the rule of law. They needed to look much more like the Anglo-American economy, and the big piece of that institutional shift was going to be around bankruptcy law, because people realized that all these economies were market economies.

The legal framework that was already in place to shut down firms was either very old or never used. It was kind of an irrelevance. They thought to have a proper market economy instead of that cronyism – you need to have hard budget constraints and a firm way of saying this is a firm that failed and we going to shut it down. No more soft budget constraints. No more dealing with the ministry of finance. If you're successful you survive, if you fail you die as an organization, and we going to try to put in a set of rules, that will really make that happen.

<sup>10</sup> Terence Halliday is Adjunct Professor of Sociology at Northwestern University, and Adjunct Professor at Regulatory Institutions Network of Australian National University.

<sup>11</sup> In 2010 the book was awarded with the *American Sociological Association Section on Global and Transnational Sociology Best Scholarly Book Award*, the *Viviana Zelizer Prize*, *American Sociological Association Economic Sociology Section Distinguished Publication Prize*, and the *American Sociological Association Sociology of Law Section Best Book Prize*.

The response by Asian financial crisis was partly driven by the crisis itself, but it was also partly shaped by the experience of the transition economies in the early 1990s, where in Russia and Eastern and Central Europe a lot of countries decided to have market economies and started the transition process. They were being told by Western advisors like Jeffrey Sachs<sup>12</sup> that they needed private property, commercial law, bankruptcy law and bunch of other stuff – and bankruptcy law was part of the institutional package. A bunch of those countries passed new bankruptcy laws in the 1990s, but sometimes it backfired and led to strange results and so on.

Because of that experience, the international financial institutions that offered development advice, like the IMF, World Bank, and the regional banks like the EBRD, were much more mindful of bankruptcy law and its role in market economy than they had been previously. So when the Asian financial crisis came along, they took some of the lessons of Eastern Europe and then the more proximate experience of East Asia and said, “Ok, guys, you need to change your bankruptcy law”. But it turns out that there is no single thing called “the capitalist bankruptcy law” because among the leading capitalist countries, like France, Germany, Japan, USA, UK these laws are quite different. They function differently and they are formally quite different. Hence, there is no single self-evident model of what is a bankruptcy law.

—*And what does it mean?*

—After these international financial institutions advised the countries experiencing crisis to change their bankruptcy laws, they (the IFIs) realized they needed to figure out the global bankruptcy standard to present a model that would solve the problem. And that kicked off almost diplomatic negotiations about the standard that would be used whenever a country needed new bankruptcy law. The groups involved in the process were things like the International Bar Association (IBA), the World Bank, the IMF, and a relatively obscure organization called the United Nations Commission on International Trade Law (UNCITRAL), and then various development agencies and of course the US were very interested and so on.

So our book traces out that negotiation, which is partly a story of competing national models, a story of a particular diagnosis of the problem that was made during Asian financial crisis, and a story of professional power – so that, as you might expect, lawyers are always happy to put in place a law that will require clients to use lots of lawyers. It was partly a recognition of the fact that economically powerful organizations sometimes have political liabilities. Even though the IMF was economically very powerful, especially in relation to countries that are in crisis because of the money it could give them, when it came to negotiating a global standard that would be acceptable to sovereign nations, the IMF was perceived too much to be the big bully, and no one would want to take the bully’s advice. So UNCITRAL proved to be a very useful venue to craft this because being a UN organization, it was politically organized like the UN, where every government participates as an equal. As you know, the way that IMF and World Bank governance works, the amount of political clout a sovereign nation has within that organization is a function of how much they contribute to it. So the US has much more influence over the IMF than does Luxembourg, for example. What made UNCITRAL a much better political venue is that at least on paper Luxembourg and the US are equals.

In the book we also looked at the implementation of legal reform of bankruptcy law. This is a Sociology of Law insight: the implementation of law can often work in ways different from the law as formally stated on paper, as a black letter rule. So we explored that process in three countries, namely South Korea, Indonesia and China. All of them were affected by the Asian financial crisis in different ways, China didn’t need a

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<sup>12</sup> Jeffrey Sachs is currently the Director of The Earth Institute, Quetelet Professor of Sustainable Development, and Professor of Health Policy and Management at Columbia University. He is among economists who introduced shock therapy for Bolivia, Poland and Russia. Since 1991 to 1994 he headed Economic Advisors group of Russian President Boris Yeltsin

bailout as it actually did pretty well coming out of the crisis, but its trading partners did poorly so it was affected indirectly, and as I said South Korea and Indonesia were hit very hard. South Korea had been doing incredibly well, it was an industrialized economy, unlike Indonesia which had also been growing but with a much lower level of economic development. And politically all three countries were quite different.

—*What conclusions you made finally?*

—We looked at how implementation unfolded as new legal models were brought into the countries from the outside, in the context of a crisis for South Korea and Indonesia, and not so much in a crisis atmosphere for China, the latter being a slightly separate case. And what we learned is that the politically powerful players who can affect a formal adoption of a law, are often much less significant when it comes to implementation, which is a very different game. And so the IMF was very powerful during the first stage as it could dictate the conditions under which it provided a bailout loan to South Korea or Indonesia. But turning the law into an actual legal reality that affects corporate reorganization and liquidation and so on, was a very different game, and the IMF suddenly became much less powerful and no longer interested, so that many of the relatively powerless groups who were unable to stop adoption of the law suddenly become much more powerful when shaping and deflecting implementation.

The other case, China, was quite different, as it didn't receive money from the IMF. But we know that China has been trying to move in the direction of a "socialist market economy," so even if it's not driven by the crisis, the Chinese were in the midst of reengineering their economy. And like countries in Central and Eastern Europe, they started with a command economy and moved in the direction of a market economy, recognizing that one of the features of a market economy is bankruptcy. On the other hand, they were very reluctant to embrace hard budget constraints, because they knew that under any reasonable standard of bankruptcy huge parts of their economy are effectively bankrupt. Politically the Chinese leadership would have a huge problem shutting down lots of state-owned enterprises like coal mines or steel factories as this will produce enormous social unrest. Therefore they made the process of adopting the bankruptcy law very slow and very incremental.

We didn't publish the book for a long time after we completed most of the analysis because we were waiting for China. We kept hearing from the people we interviewed in China about the passing of bankruptcy law. We thought once they passed the law then we could bring our analysis to a close, it would be a natural ending point. But it took much longer than we thought, than a lot of people expected, probably because of that reluctance to bring in a new legal standard that would adversely affect state-owned enterprises.

—*Do you think there is a possibility for the most developed and developing countries to achieve a consensus about global finance market regulation?*

—I don't think that it there will be a consensus. However there could be an effective consensus among the very small number of countries that have the major financial centers or financial markets in their territory. If the EU changes its regulation of financial markets and the U.S. harmonizes its regulation, and they bring Japan in, I think it won't matter what most of the other countries do. That would de facto set a new global standard for financial regulation.

What would be critical is consensus among this much smaller group. I don't think that it matters if this consensus includes Haiti, or Costa Rica or Ecuador, for example. What will matter is whether really small number of countries that has the leading financial centers within them decides to move in the same direction and recognize too much deregulation was bad because it has affected us globally. So if major players agree to make a change, the rest of the world would follow.

—*So, your idea is that it's only the developed countries that decide what is going to happen?*

—Effectively, yes. But with one exception – what will happen with China. This country is sitting on this huge pool of U.S. dollars and government securities. They don't want financial chaos anymore because if they don't have customers to buy their goods, they can't export. And they have a vast interest in the strength of the U.S. dollar and the solvency of the American government because they are its biggest lender at this point.

Even though the Chinese don't yet have a leading financial sector. I think they clearly have an interest in a resolution to the crisis. They also have a long-term interest in orderly financial markets. The current financial crisis is a problem for them like it is for everyone else. You can't really call them a developed economy but they would be a part of global consensus. That would be the one major exception, along with probably India.

—*What norms will be used for these world operations: European or American? Can the developing countries influence the norms?*

—These are rules to govern capital markets. Are we going to strengthen them? If you don't have much of a capital market then you can come up with a set of new rules but it is really not going to matter. Unless you actually have a capital market in your jurisdiction, that's irrelevant. It would be very difficult for developing economies to successfully propose or impose an alternative to whatever the developed economies would come up with.

—*Politicians, mass media and ordinary people often blame that economists slept this crisis. "Rocket science misfires" [Carruthers 2009]. But economic sociologists did not study the \$4 trillion American mortgage securitization sector either [Fligstein 2010]. Could economic sociology alarm people and professional communities about the crisis?*

—I would certainly like to think so. We could offer some things. Consider one book that came out recently *Foreclosed* by Dan Immergluck<sup>13</sup> [Immergluck 2009]. The author has been interested in mortgage lending discrimination and urban development for a long time. He's kind of sociology/public policy person and he rushed into print a book that took full advantage of the crisis. He said "Here's the crazy thing about mortgage markets that I've been saying for more than ten years, and see I was right." So for him it was a kind of moment of opportunity to bring to a broader audience an analysis and a set of ideas that he'd been pursuing mostly in obscurity.

In October 2009 there was a conference held here at Northwestern University. It was organized by Paul Hirsch and Michael Lounsbury<sup>14</sup>, who are sociologists in business schools. It brought together a lot of economic sociologists to reflect on the crisis. The results will appear in summer 2010 as a special edition to the journal which Lounsbury edits. That would be an encompassing showcase for what economic sociology has to say about the crisis. It is too early to tell that if we could have done it better, that if only we had been in place advising governments, the world would have been a better place.

It's true that sociologists have not been that interested in mortgage loan securitization, because it sounds boring and technical and it is not part of the core or common topic for Sociology. But there is a small group of economic sociologists, including myself, who think that those kinds of markets and processes are not at all obscure, or technical or uninteresting and we should be studying them.

<sup>13</sup> Dan Immergluck is Associate Professor at School of City and Regional Planning at Georgia Institute of Technology. His recent book are: [Immergluck 1998; Immergluck 2004].

<sup>14</sup> Michael Lounsbury is a Professor of Business, Strategic Management and Organization at the University of Alberta. Paul Hirsch is a Professor of Strategy and Organization at the Kellogg School of Management (Northwestern University).

For example, Guy Stuart<sup>15</sup> wrote a book called *Discriminating Risk* [Stuart 2003]. That is all about the problem of value in mortgage markets and what kind of institutions had been put in place from the beginning of the century that operate to create a legitimate value for both tangible and intangible commodities that animate mortgage market. He shows that it was a very politically shaped and contingent situation: it was not at all simply the rationality of the market place unfolding. But he figured that all out well before the crisis came along.

Sociological interest in mortgage markets mostly lies in discrimination and racial segregation. A book *American Apartheid* [Denton, Massey 1993] clearly showed that mortgage markets played a special role in the spatial segregation of the American cities of the XXth century. But sociologists should look at the mortgages in connection to other patterns that usually interest sociologists like racial discrimination, segregation and so on. And it is economic sociologists who should show that the way the market works is not just the story of its rationality and efficiency unfolding, but it's also about embeddedness, political contingency, etc.

—*Recently you won the Law and Society Association Best Article Prize with Prof. Halliday for unusual for sociologists 69-page paper [Carruthers, Halliday 2007]. Can you call yourself economic sociologists of law? And what do you think about the perspectives of this field of studies “the role of law in economic life”, using Richard Swedberg’s words [Swedberg 2003]?*

—My intellectual interests are at the confluence of Economic Sociology, Comparative Historical Sociology and Sociology of Law. I overlap between these three things. And when I think about the economy I am always mindful that in modern economies at least, there is a legal framework that upholds not only the transacted objects, that is, property that is being exchanged, but also property rights, which constitute the objects that we're buying and selling. People are transferring bundles of property rights no matter whether they do it on financial markets, mortgage markets or in grocery stores. So you have to look at laws, both “on the books” and “in action”.

It is impossible to think about markets without being mindful of law. So laws matter for the creation of the objects of exchange and they also matter for the exchange processes themselves. Many exchanges occur through contracts, which is a legal device that governs a particular transaction. Even if we don't use contracts, or contracts are incomplete, exchange frequently happens in a shadow of a contract, we should think why so many transactions occur under the umbrella of a contract, and why is it possible for them to occur outside of a contract. In both cases we should also trace the dynamics of the law. Those ideas were first offered by Stewart Macaulay<sup>16</sup> [Macaulay 1963].

And it is fascinating to study how property rights have changed over time, especially if you look at the development of intangible forms of property. Five hundred years ago it was all about land, three hundred years ago, if you're in Europe, intangible property rights might be about venal offices. Today venal offices mostly disappeared, land is still around. But if you look at the great bulk of wealth, it is all about intangible or intellectual property.

A lot of the leading sectors of the modern economy – from pharmaceuticals to Hollywood – are all about bizarre property that didn't exist in the past. But what shapes their creation? Where do the new forms of property emerge? These are very interesting questions for study. I think in that way it's very natural, it speaks to the integrity of the phenomenon, that as researcher one is simultaneously interested in the economy and law from historical or comparative perspective.

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<sup>15</sup> Guy Stuart is an Associate Professor at Harvard Kennedy School.

<sup>16</sup> Stewart Macaulay is Professor of Law Emeritus at the University of Wisconsin-Madison. His recent book is [Macaulay 2007].

—As you put it on you personal Northwestern University website, you are methodologically agnostic, i.e. you do not believe that the qualitative or quantitative distinction is worth fighting over<sup>17</sup>. Nevertheless, you are working on topics which economists cover too. How would your ideas compete with the mathematical models of economists or political scientists?

—As you know, mostly economists ignore sociologists. A couple years ago an article about citation patterns among the social sciences “*Who Talks to Whom?*” showed that economists are mostly very self-referential: they read and cite other economists [Pieters, Baumgartner 2002]. Political sciences and sociologists read economists and also read people within their disciplines, but the most insular group is economists. They do not have a good sense that there’s a whole lot outside their field. There’s not a lot of professional incentive to do that.

And if I think about this as a competition where some of the judges are not paying attention to many of the contestants, it is a strange competition. They may not even know what others are doing in their fields because they’re quite insular intellectually. I don’t care whether they get interested in or mention my work because I understand their evaluation mechanism is heavily skewed because of their disciplinary biases.

As everyone knows, there is a huge trade-off between the elegance of a formal model, that may be mathematically lovely and tractable and so on, and reality, which is ugly, messy and complicated. So with a model you hope try to capture a thread of reality, represent it in a simple form so that you can understand it. The thing is to make sure you recognize what the social science is about – it is about reality. The models are nice but the models are just tools.

One of the lines of Economic Sociology research was influenced by Sociology of Science – I’m talking about Donald MacKenzie’s<sup>18</sup> work where he used the notion of *performativity* [MacKenzie 2006b]. He used it to understand the impact of the Black-Scholes option pricing model<sup>19</sup>. He argues that models are performed, that is, people reshape their behavior because they now have a model, not only to describe reality but also to enact it. If you enact it, it may make model more accurate: people start behaving as if it were right.

But it’s clear in his perspective that a formal mathematical model is not just simple representation of reality, it’s also a recipe for doing things. So the relationship between the phenomenon and the theory of the phenomenon, whether it’s more descriptive or an analytic formal model, is more complicated than we thought.

Concerning my methodological agnosticism, in some sociological departments there are big fights and lots of rude comments about qualitative and quantitative methods. I think that’s stupid and we should be very tolerant and diverse and recognize that sometimes you just have to choose a method depending on your problem. So, as an example, MacKenzie has a background in Mathematics, so he’s actually good at Math, especially by sociologist’s standards. But he doesn’t himself do formal models, he does interviews. Even if a formal model is a centerpiece of his research, he himself is going to use a very old-fashioned quasi-anthropological ethnographic method of going and talking to those people and finding what are they

<sup>17</sup> <http://www.sociology.northwestern.edu/faculty/carruthers/home.html>.

<sup>18</sup> Donald MacKenzie is Professor of Sociology at University of Edinburgh. His recent books are: [MacKenzie 2006a; MacKenzie, Muniesa, Siu 2007; MacKenzie 2009].

<sup>19</sup> “A model of price variation over time of financial instruments such as stocks that can, among other things, be used to determine the price of a European call option. The model assumes that the price of heavily traded assets follow a geometric Brownian motion with constant drift and volatility. When applied to a stock option, the model incorporates the constant price variation of the stock, the time value of money, the option’s strike price and the time to the option’s expiry” (<http://www.investopedia.com/terms/b/blackscholes.asp>).

thinking and learned. He's a good example of how it is that even if you want to study formal models, you can end up being very qualitative.

Another project I'm working now is looking at the creation of credit ratings. Credit rating is a way in which people devised quantitative measures of trustworthiness. But I'm treating that itself as an object of study. How do credit raters construct quantitative data about the trustworthiness of small firms, and then sell that data to customers? In analyzing that process sometimes I rely on qualitative documents, and I am also doing my own quantitative analysis because the thing about those numbers is, they are countable. Of course I want to take advantage of that, but it's not because I made some big principled decision to be qualitative or quantitative, it's more like "it depends".

*Interview made by Dmitry Krylov and Georgy Loginov*

Evanston, January 15, 2010

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