STATES AND MARKETS

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A perennial question in economic sociology is the relationship between the state and economy, which most economic sociologists conceptualize as co-constitutive. How would you characterize your own take on the relationship between the state and economy, and states and markets? What are some unexplored questions or problems we should be discussing/studying? Where should future research turn?

Wolfgang: I prefer to speak of either "the state and the market" or "the state and capitalism". "The market" is shorthand for a mode of governance (free contracts at prices set by supply and demand) while "capitalism" refers to a particular power structure in society (private ownership of the means of production, private accumulation of capital)."The state and the market" refers to the multifaceted relationship between two modes of allocation (distribution), whereas "the state and capitalism" refers to the equally multifaceted relationship between two different kinds of power (political and economic), or between citizenship and property rights, etc.

Marion: Let's try to specify what we mean by co-constitution. Social scientists have increasingly come to problematize the traditional dichotomy between the state and the economy. The reason is that the existence, nature and localization of a boundary between state and economy, or, as Wolfgang says, state and market, is itself an effect of state power. States largely define the extent and power of markets, including the power of markets vis-à-vis themselves. We see this in the realm of sovereign debt, for instance, where states reframed their own action to turn market discipline onto themselves. Paradoxically, though, states remain the market's institution of last resort: thus a seemingly well-established boundary between public and private property can be called into question on a moment's notice (remember AIG…).

What scholars have influenced your thinking the most in terms of the relationship between the state and economy, or states and markets?

Wolfgang: After 2008 my interest has moved from a "state and markets" to a "state and capitalism" perspective: from the question of how to contain (regulate) markets by policy, to how to explain the increase in the (private) power of capital as compared to the (public) power of the state, and how they are interrelated. In this I was guided mainly by my reading of Karl Polanyi – an increasingly heterodox reading if compared to the "always embedded" interpretation of, for example, Neil Fligstein. What matters most in Polanyi, as far as I understand him, is his "political" side: the idea that there is a battle between movement and counter-movement – between socially destructive and socially regenerative forces associated with the progress of capitalist modernization – the outcome of which is fundamentally open: meaning that it is historically possible for capitalism to destroy its social moorings, and in the act destroy not just society but also itself, the latter in the course of the former.

Marion: Polanyi and the neo-Polanyians in the sense that Wolfgang mentions, most notably Greta Krippner and the younger generation of economic sociologists. Tim Mitchell and the neo-Foucaldians, for their attention to technologies of power. But I retain a very soft spot for the cultural approach to comparative political economy, which Frank Dobbin early work represents best I think. The notion that political culture shapes, very deeply, how people seek to solve economic problems continues to stick with me as one of the most important insights of our field.

How do you think the relationship between state and economy has changed over time? Is the relationship between markets and states contingent on particular historical circumstances and factors (like wars, epidemics, natural disasters, technological development, or, more generally, the level of economic development)?

Wolfgang: I take the answer to the second question to be self-evident: yes. Generally I have come to the conclusion that there can be no sociology, or at least no meaningful sociology, without indices of time and place attached to each and every statement, general or not, on the reality of the social world. That would get sociology close to history, and this seems very highly desirable to me. Moreover, social theory itself is affected by the historical circumstances in which it is made, and we cannot understand our own tradition without putting it in historical and social context.

Marion: Obviously, but remember that contingency is not simply on the input side but also on the output side --it has to do with how contingent developments are processed by historically situated entities. From that point of view it is always extremely difficult to predict how a particular event or set of events will influence the course of economic development, because countries might respond very differently to quite similar circumstances. This suggests a second, very important point: contingency is never so radical that we are incapable to explain why things went a certain way. If history teaches us anything, it is that technologies stick, institutions constrain, and representations always lurk in the background, shaping outcomes. In other words, economic life is also patterned. Thankfully, because we would not be in business otherwise.

What are the limits of the state? Does it mean nation-state or everything to do with politics and regulation? What other institutions are states and markets responsive to? Where do you see there being tensions - or even contradictions - between institutional domains?

Wolfgang: I have a basically Weberian concept of the state: an organization claiming exclusive control over the legitimate use of coercion within a defined territory (defined by borders), which includes the ultimate control over the making and application of formal law. (States can license coercion and law-making to non-state organizations, but they retain ultimate control, otherwise they cease to be states.) Social forces, organized or not, including economic interests and corporations, compete for control over state power, and state officials try to carve out an independent role for themselves. There are lots of tensions and contradictions between actors and domains and "functions" here, of surprising variety and variability. I no longer entertain a "system" image of societies, as my world has become much more chaotic and contested with time (in other words, more Weberian in the conflict-theoretical Reinhard Bendix reading of Weber, and certainly more Marxian).

Marion: My definition would be close to Wolfgang's but incorporate some insights from Bourdieu: states also exert their power through symbolic means. This is a type of coercion, too, but it is much more insidious and hard to pin down, because it is, essentially, within us. On the face of it, the limits of the state appear to be the result of political contests over state boundaries. Furthermore, there is no way to define the limits of the state a priori from an institutional point of view because the state is, par excellence, the economic institution of last resort. In the recent financial and economic crisis, large private institutions fell under state purview in a matter of days, if not hours. A country's private banking system, to the extent that it can become a public liability, may suddenly become part of the state (as in Ireland's decision to mop up its banks' losses), as can its auto industry or other economic sectors deemed vital.

The term "neoliberalism" seems to mean a lot of things to a lot of people. How do you define neoliberalism, and how do you conceptualize/ understand the causes or effects of the well-documented "turn to neoliberalism" in your own work?

Wolfgang: I locate neoliberalism in the historical period of the disintegration of the postwar settlement between capital and labor, after the three decades of "democratic capitalism". To me it means the rise of a strong state enforcing a free, "self-regulating" market, across a broad range of fields of social life. I attribute the neoliberal revolution to the running out of patience on the part of capital with the social-democratic economic order of the 1960s and 1970s, as well as to the economic disorder this gave rise to. As all major historical turns, there were several more or less related causes effective here, working alongside each other. There are also deep cultural transformations associated with neoliberalism, as described by Wendy Brown or Dardot & Laval or others. I have sketched out my account of this in Buying Time (2014).

Marion: Yes, there are many definitions; in some ways the words 'neoliberal' and 'neoliberalism' have become hodge-podges of everything that sociologists do not like! But I'd say there are two major dimensions. First, there is a macro definition, associated with the nurturing of market mechanisms by states: trade opening, privatization, deregulation, retrenchment from public services, and a certain antipathy toward labor unions are the most common dimensions of neoliberalism understood in this way. Note that rather than relying on an absence of rules, these policies demand considerable institutional action: markets are not free and competitive by nature. (Adam Smith already knew that) But what interests the new generations most --and what really makes the "neo" in neoliberalism-- is the micro dimension. This refers to neoliberalism as a technology of the self, in the manner outlined by Michel Foucault in his lectures at the Collège de France, later taken up by Dardot & Laval and others. This second view, which is articulated with some aspects of the first view (retrenchment for instance), argues that many core institutions of capitalism and the welfare state have been redesigned so as to better align individuals with the demands of the system --we have to become efficient, socially, culturally, physically and psychologically. The discipline that has most contributed to diffuse this emphasis on efficiency criteria, and in some cases directly shape new policy designs, is economics.

Markets are increasingly turning global, but states are national by definition. Are states still the primary regulators of markets? How much autonomy do you think domestic political actors still have in the current globalized era?

Wolfgang: The transition from markets inside states to state insides markets is of huge historical significance. We are still trying to understand its full implications. As to what the transition means concretely for states, we should beware of excessive generalizations here. I believe "globalization" can in one important sense be regarded as the global expansion of the domestic political economy of the United States, empowering one state while disempowering all others (leaving aside China for the time being, which is a special case). Wall Street banks, having captured the American state and American politics, have enormous autonomy under conditions of global anarchy (euphemistically called "global governance"), whereas most governments have to take their signals from them or the U.S. Some states, usually small ones, are however doing well by using their remaining sovereignty to carve out niches for their societies in global markets – see Sweden or Switzerland. Of course nobody knows how long this will last, and in any case it involves general acceptance of the logic of "free" global markets (as instituted by U.S.-dominated international organizations).

<u>Marion:</u> It's impossible to answer such a big question! We have had globalization for ever. What really has changed are the globalizing possibilities offered by technology. The fact that even small companies can have most of their operations overseas is a huge shift. The fact that many firms' public face (the face that interacts with you) is somewhere in Bangalore or in the Philippines is a huge shift. The fact that corporations can rely on global online platforms (such as Amazon's Mechanical Turk) to get large amounts of work done without the need to hire anyone beyond the task at hand is a huge shift. I am not sure how we will regulate that world, though somehow we will try.

In recent decades, we've witnessed the rise of globalization and international/supra-regional regulatory and supervisory bodies (i.e. the EU, the ECB, Basel Committee, IOSCO, etc.). What have been the general consequences of this change? Has the EU introduced any creative innovative idea on the relationship between state and markets or market regulation more generally?

<u>Wolfgang:</u> "Global governance" as a replacement of national government is a euphemism if not outright liberal propaganda. We should admit that we have no successor as yet to the national state as regulator of the capitalist economy. As to the European Union, it is in its core a deregulation machine, which makes it fundamentally inappropriate to ask for its "innovative ideas" on national regulation – other than tongue-in-cheek.

<u>Marion:</u> The recent policies of the ECB are a huge departure from past practice. So is the move toward a banking union in Europe. Whether the actual implementation of these "innovations" will have any teeth to it is another matter.

What can we learn from China on the relationship between states and markets?

<u>Wolfgang:</u> That today it requires almost unlimited amounts of coercive state power to harness markets to political or social interests – and that even with such power rising inequality, a rapid accumulation of debt, and pervasive corruption cannot be prevented.

<u>Marion:</u> I have no idea how to answer this question in a general sense. Whatever I know I have gleaned from the media mostly, and there are many people who are more qualified than I to comment on this. However a few things have caught my eye recently. For instance, I find it fascinating that the kind of optimization of the individual self that we generally associate with neoliberalism, in the form of the scoring of individuals for credit or other purposes, may in China become more closely intertwined with the political demands of the state. See the recent uproar about the government's plans for a future "citizen score", a government-mandated credit system focused on morality, which among other things might (the full details are not known) have the effect of nudging people toward politically compliant behaviors, or to cut off social relations with friends and family who openly dissent with the regime. What kind of society these new systems (public and private) are building is an open question everywhere, but we can learn a lot from what is happening, or may be happening, in China.

What distinguishes the approach taken by economic sociologists to the study of states and markets from other, related fields (economics, political science, and public policy)? How does

your work expand upon or critique these other approaches?

Wolfgang: I don't believe in neatly delimited disciplinary turfs. I don't even know if I am an "economic sociologist" – I leave it to those belonging to the club to decide if my work is of use to them, and if they want to coopt me, then that's fine. I see myself at least as much as a political economist (in the tradition of the institutional economics of the Historische Schule) or a historical institutionalist, which make me, in addition to a sociologist, an economist (admittedly of an outdated sort) as well as a political scientist. My motto is: go where your subject leads you, even if your discipline considers it out of bounds.

Let me add that one peculiar strength of economic sociology, as I see it today, would be its potential to understand the transformation of social structure and culture in the context of the ongoing development of the economic conditions and institutional structures of contemporary capitalism. Specific subjects might include new forms of social cohesion or social anomy; "flexibility" as adaptation of social life to ever-faster capital circulation; consumerism and how it is produced; new forms of work and employment and how they affect social life and social identities; not least new forms of resistance to capitalist economization and acceleration. Standard (micro-) sociology is somehow present in all these fields, but usually without knowing what they are doing and why they are doing it. Without connection to the historical political-economic macro context their results remain more or less meaningless.

Marion: When I teach so-called "economic sociology", my syllabus contains works that are published under the disciplinary labels of sociology, history, political science, anthropology, economics, science studies, and accounting. What I see between them is a commonality of objects, and I think --in general-- that we should all go where the objects lead us, as long as we believe that the empirical research supporting these works is of high quality, or that the arguments are good to think with. Those --in fine-- are the only criteria that matter.

That said, as sociologists we have certain intellectual habits. We look for power everywhere we turn our gaze, and that is a good thing. We do not attribute motives a priori to people, we seek to understand (as good disciples of Max Weber should) why they do what they do, and that is a good thing, too. We always think of phenomena as the results of specific historical processes, and that is a a very important thing. We thrive on our closeness to the phenomenon, but we also have an analytical backbone. And we can rely on many different analytical lenses, depending on the nature of the object, the level of analysis, and the method. A very micro analysis can be just as thrilling as a very macro one, if both are well done; the same goes for historical research, ethnography or network analysis...

Much research in economic sociology incorporates a historical lens to understand the social origins and changing meanings of economic institutions, actors, and events. What are the benefits to this approach and how might the two subfields engage more with one another's work?

Wolfgang: What the benefits are? Let me answer the other way around and simply point out that there are in my mind no benefits at all to a non-historical sociology of "institutions, actors, and events", just as there are no benefits to a non-sociological ("new" or "rational choice") institutionalism.

Marion: Not all economic sociology needs to be historical in method and orientation, but all good economic sociology needs to have an awareness of history.

Do you think economic sociologists should engage more in public debate about states and markets? How should this be done?

Wolfgang: These are really hard questions. Yes, economic sociologists should take part in public debate, in particular about "states and markets", the way defined earlier. But they should not limit themselves to, and certainly not specialize in, pointing out the "soft factors" in economic performance, to complement the supposedly "hard factors" treated by economics. To me "public sociology" for economic sociologists would amount to a very difficult and often futile attempt to find an audience willing to learn and do something about the social needs violated by capitalist development and the limits such needs put, or should be able to put, to the adjustment of social life and social structures to the requirements of capitalist-economic efficiency. This would make economic sociologists advocates of social life and social dignity in their struggle with powerful pressures for economic rationalization. Needless to say that there is no guarantee of success here, certainly not in the short term.

Marion: We certainly don't have the confidence of economists when it comes to public debate! I commented on this very topic for the same newsletter not so long ago (see http://www.asanet.org/section-econ/documents/accounts12sp.pdf). My feeling is unchanged: sociologists often find themselves both effectively marginalized and shying away from direct policy involvement. Their intellectual habits center around social critique precisely because they are already outside: in the words of sociologist Pierre Bourdieu, they "make a virtue of necessity."

Economic sociologists have long been interested in the meaning and role of crises in shaping the state and economy. How do crises factor into your analysis?

Wolfgang: It took me a while to realize that sociology has always been a science of crisis, except perhaps for the two or three decades of the (Eisenhower and Kennedy) postwar era when sociology took its present shape, almost exclusively in the United States. 2008 was a revelation for me when I fully realized for the first time how dependent states, politics and social democracy had become on a global financial sector out of control and run by people with oligarchic aspirations that had no clue what they were doing, and didn't need one to become and remain very rich. That previous crises have not resulted in complete chaos (although they were sometimes quite close to it) does not mean that future crises won't: there is no inductive-historical proof of the future stability and sustainability of capitalism. I would go as far as to say that any economic sociology that does not provide for the possibility of capitalist development entering (again) a critical if not terminal state is not worth its money.

Marion: Crisis and change are the bread and butter of the social sciences.

In Capitalizing on Crisis (2011), Greta Krippner argues that the U.S. state actively promoted financialization as a way to avoid social unrest during a period of profound economic turmoil. How do you think states are attempting to resolve the current global economic crisis? Does financialization remain a viable option? What is next for capitalism?

Wolfgang: Of course I wholeheartedly agree with Greta and have learned tremendously from her for my own work. As to the present crisis, or the aftermath of 2008, we are seeing a new version of financialization, which consists in the unlimited production of money ("out of thin air") by the leading central banks. Everybody knows that this cannot last forever, but nobody dares ending it, in particular being the first to do so. The primary beneficiaries of this are the banks and the financial sector as a whole. To get more social interests on board, central banks use the side-effects of "quantitative easing" to engage in competitive devaluation, to improve their countries' terms of trade. Is this still "financialization", or is it something new? We will know in a decade or so. Is this what is next for capitalism? Capitalism, as I said, is out of control: there is nobody any more who could aspire to running it, no individual, no firm, no state, and no international organization. We live in an age of indeterminacy, when predictions have become even less possible than in the past. In Gramsci's words, we live in an interregnum when the old world has died while the new one cannot yet be borne – an age of surprises, most of them unpleasant.

Marion: Actually Greta's argument is more subtle. In the US, the state was surprised to discover that financialization could solve many of its problems. And then it discovered, much to its dismay, that financialization could make things a lot worse. But in the interval --in the wake of the first discovery-- it gave an enormous amount of power to the financial industry, which has proven very difficult to undo, especially in a country where money controls much of the political game. Some of the policies that were adopted to save the banks have never been used in history, or at least to that extent. What is next for capitalism, I do not know. And remember that the most important crisis on the horizon may be cultural, or military, or environmental rather than economic proper. Let us not forget that the Soviet Union and its associated empire collapsed as a result of nationalistic pressures, not its own economic inefficiencies.

In Capital in the Twenty-First Century (2014), Thomas Piketty notes that capital is increasingly taking the form of rents. What is the significance of this finding for economic sociologists? How do states enable and constrain this form of accumulation?

Wolfgang: Rent extraction always requires a little help from political friends, and indeed corruption of one kind or other is its indispensable companion. I mention as an example the former Goldman Sachs functionary Mario Draghi and his one thousand billion euro credit program, under which banks can borrow money from the European Central Bank at one per cent or less, which they then immediately hand on to (their national) states at, let us say, three percent. This is rent extraction (from taxpayers) if there ever was one. Economic sociologists should know much more about financial (and other) conspiracies of this sort, and devote much more theoretical and empirical effort to their study. For this, incidentally, they need to forget what they were told in graduate school: that since "conspiracy theories" are simplistic (and impede the advancement of your career), your sociological theory should assume conspiracies away. Of course without being allowed for theoretically, they don't exist for empirical purposes, and therefore cannot be studied.

Marion: The consequences, Piketty argues, are dire for both capitalism (rentier capital dominates productive capital) and for democracy (a small, ultra-wealthy elite dominates politics). But whether or not we believe his theory about the tendency of capital to grow and get concentrated in the long run, this tendency can --and must, if we want to reverse the inequality trend-- be countered by judicious policies (indeed the last part of the book is titled "regulating capital in the twenty-first century.") In other words, the discussion must also be political, and we might have a lot to say about that. The best thing about the Piketty-Saez-Atkinson-Zucman findings is that they have made economic sociologists more interested in inequality. To be frank, the field of economic sociology originally built itself in relative isolation from much of the traditional stratification literature, and in opposition to its (admittedly more Marxist) relative, political economy. We lost something then. The possibilities open by the (re)discovery of these connections are exciting.