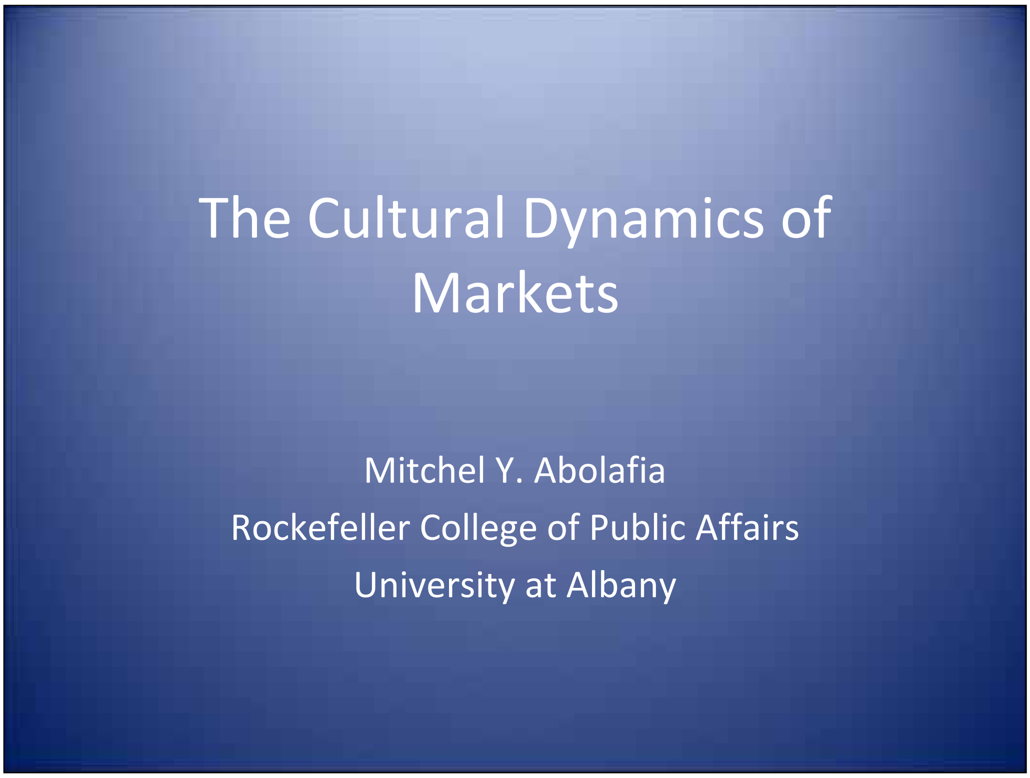
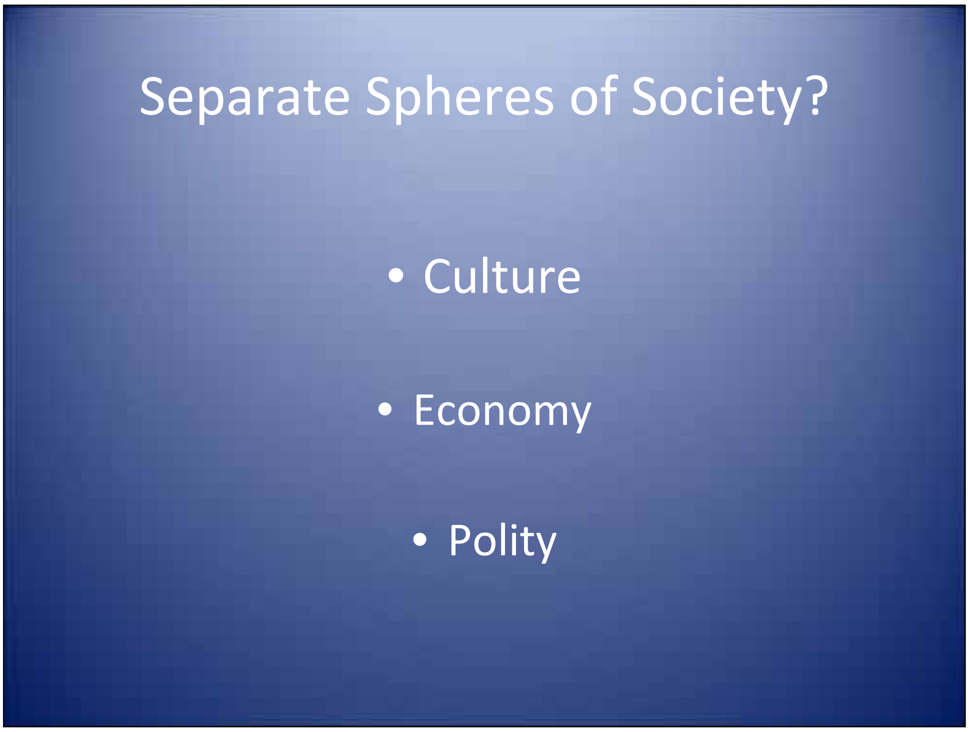


(Thank you to organizers.)

It is a great honor to be the opening speaker at this conference on the Economic Culture of Modern Capitalism.

It feels appropriate to open this conference by taking note of the famous controversy embedded in **any** discussion of economy and culture. The controversy asks “Is a particular culture a necessary component for the emergence and success of capitalism”, as Weber would have it, OR “Is culture merely a reflection of economic relations” as Marx believed? When Daniel Bell published his book, the Cultural Contradictions of Capitalism in 1976, he sided with Weber. He saw the rise of capitalism as a unique condition in which the cultural values of asceticism and acquisitiveness had been joined to an economy based on rational calculation and the reinvestment of capital. In Bell’s view, culture, economy and polity were conceptualized as separate spheres that had become contradictory in modern times. (next slide)

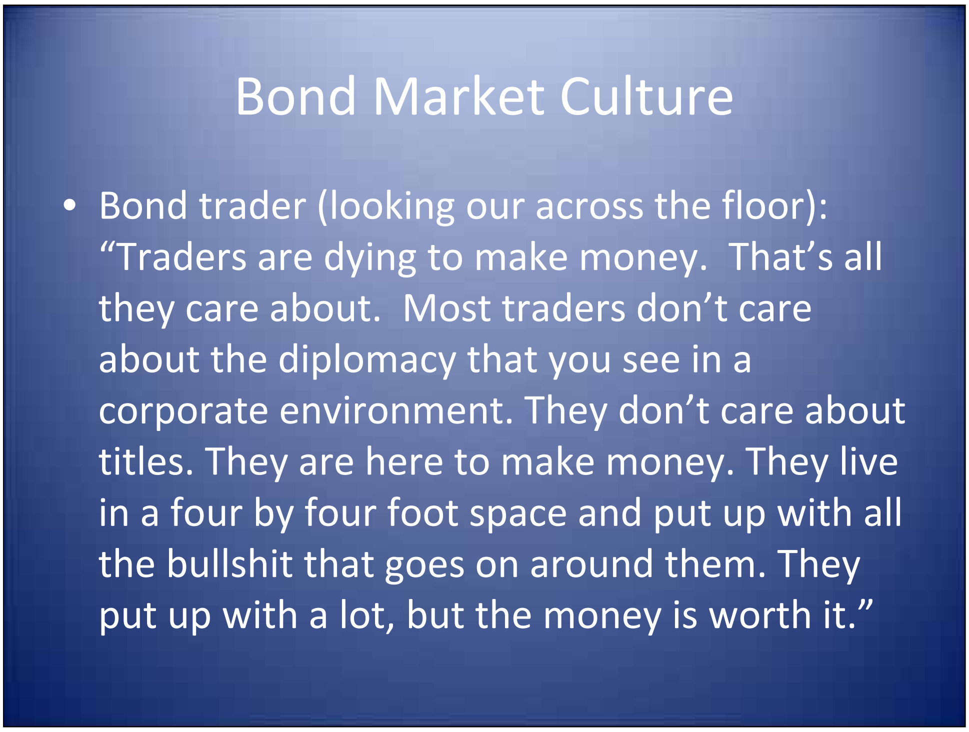


But these separate spheres are an analytic convenience that echoes a broader disciplinary delusion in social science. In the empirical world, the spheres are interwoven, the character of each influencing the other in powerful ways. Each of these spheres shapes the nature and form of capitalism. And without giving away the conclusion of my talk, I will say that the interaction of these 3 forms of action constructs the institutions that reproduce capitalism.

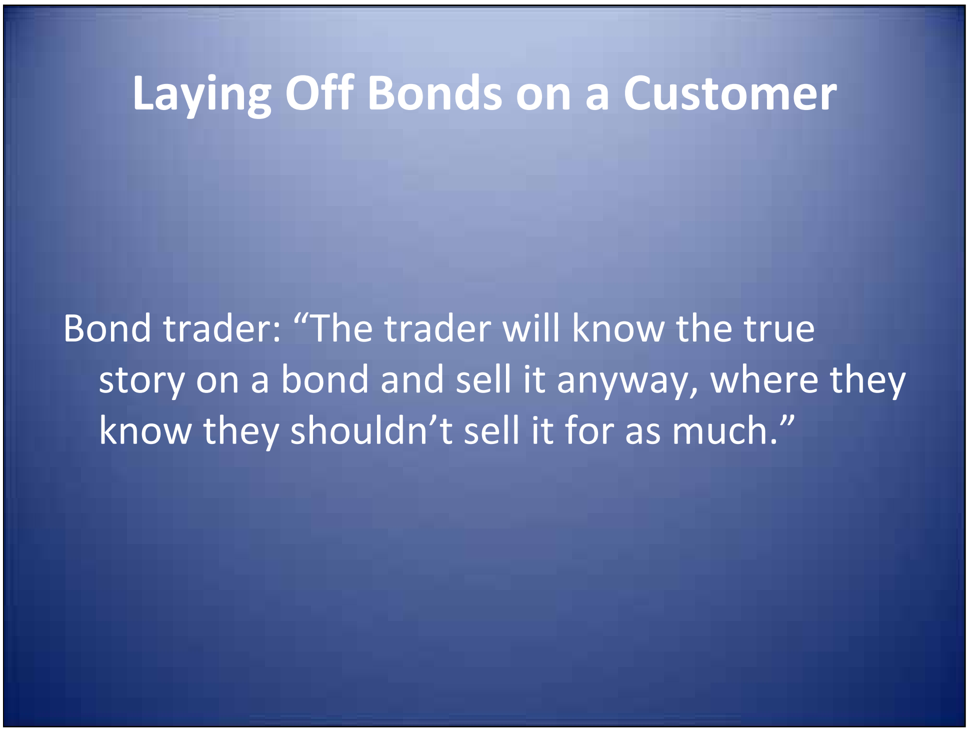
But, there is always confusion when one uses the term culture. For Weber, it referred to certain values that were associated with the Protestant Ethic. But today we know that capitalism can thrive in a wide variety of religious environments, places as varied as Israel, Japan, China, and France. And even in places with the same religious tradition, such as North and South Korea, you get very different outcomes. But if one uses the term culture to refer to the local culture found in every market, there is clearly an interpenetration of culture and economy. If we think of culture as "an ordered system of meaning in terms of which interactions take place," a definition I borrow from the anthropologist Clifford Gertz, then there is no separation of the spheres. Every transaction is **embedded** in culture, but this culture is what Gertz would call a "local knowledge." rather than a grand societal one. My own research over the last thirty years has argued that the phenomena of markets and cultures are inseparable. In fact, I have argued that we can usefully study Markets **AS** Cultures. (next slide).

The term “Markets as Cultures” denotes that as loci of repeated transaction, markets exhibit their own distinct systems of shared understanding. These understandings include who may transact with whom, how bids and offers will be coordinated, when and where transactions may take place, how the commodity is defined, and what behaviors will be considered inappropriate.

I want to begin with two examples of market cultures from my research. The markets are seemingly quite similar. In fact, my ethnographic field work in the first market was done within walking distance of the firms engaged in the second market. The research site, not to be mysterious about it, was Wall Street, the financial district in New York. The markets were the bond market and the stock market. I studied the trading floors in each market, doing extensive interviews and observation over the course of five years.



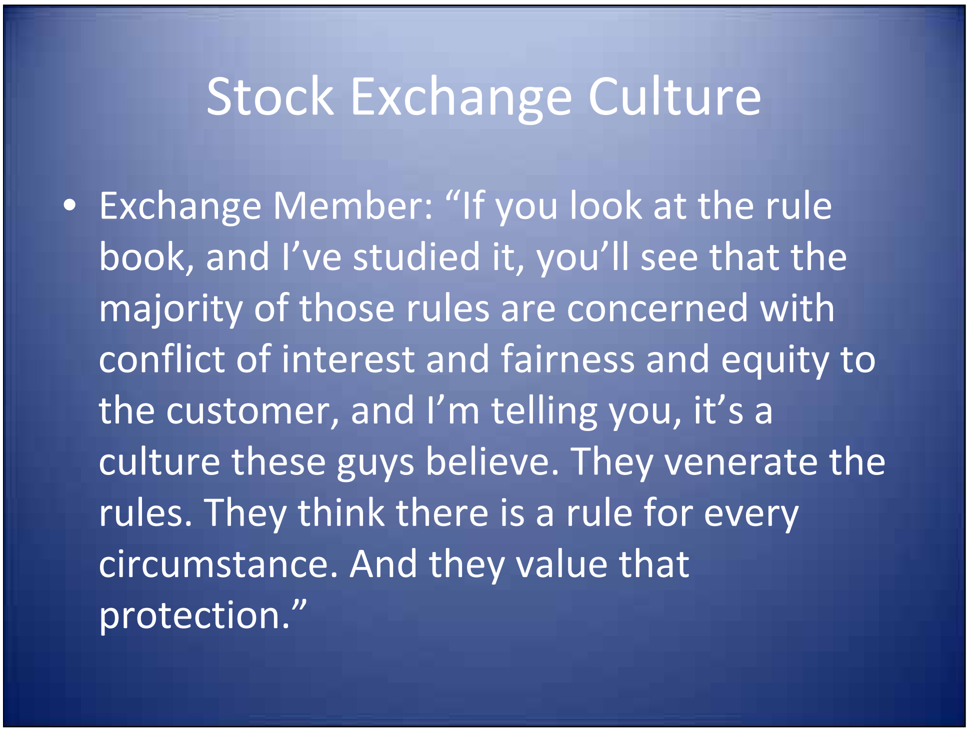
I did my research on bond market culture on the trading floors of four of the ten largest investment banks in the US. I began my fieldwork at the peak of a speculative mania. Unsurprisingly, I found that the goal of bond traders, most of whom were in their twenties and early thirties, was “extraordinary personal wealth.” As one Bond trader told me: (READ the Slide) Related to this focus on wealth was the excitement of winning and mastery of the game. As another trader said, “It’s not just the money. It’s the excitement. The chance to test yourself every day.” The means for winning this game included a variety of trading strategies, some of them involved opportunistic behavior, that is, the use of guile in transacting with a trading partner. Perhaps the simplest form of opportunism I discovered was what traders called “laying off bonds on a customer.” This basically involves taking advantage of the ignorance of the firm’s customers. (next slide)



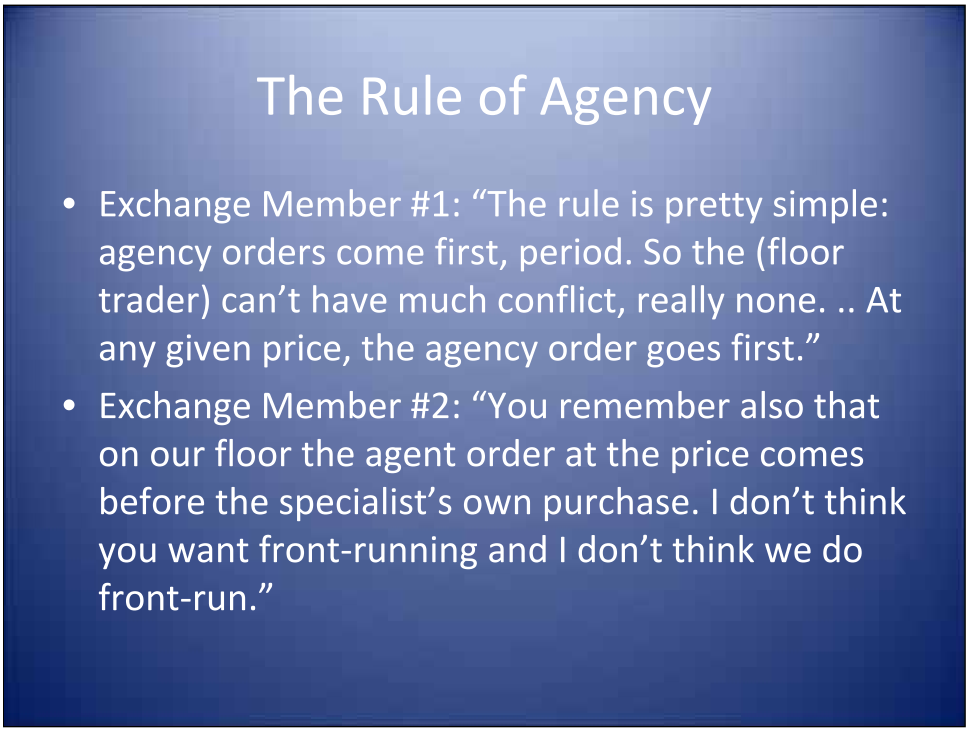
(Read slide) In this strategy the trader pressures one of the firm’s salesmen to persuade a customer, like an insurance company or a pension fund, that bonds are worth more than the firm actually paid for them. Not only does the firm make a profit on the trade, it charges the customer a commission to do it.

Traders refer to such strategies as “grey areas” although the strategies clearly involve lying to the customer and putting the firm’s trading interests ahead of the customer’s interests.

Several years later my research took me to the floor of the New York Stock Exchange. The contrast between the bond market culture and the stock market culture was as stark as it was surprising. (next slide)



(Read Slide) What I discovered on the floor of the Exchange was a kind of rule veneration and pride in the transparency of the market. As one member said "We have a clear, transparent, proficient, regulated, and pretty damn terrific marketplace." This was far different from the "grey areas" talked about by bond traders and their willingness to take advantage of customers. In fact, the single most widely talked about rule at the New York Stock Exchange was the Rule of Agency, an understanding that the customer's order always gets executed *before* the trader's at any given price. (Next slide)



(Read Slide) The contrast we see here between the bond market and the stock market is what I mean by Markets as Cultures. The members of these markets play by different rules, they see their roles vis a vis their trading partners differently, and they take these rules and roles for granted as normal and proper.

So my understanding of culture is quite different from Bell's or even Weber's. Market culture operates inside the market, as part of the market. It is not outside the socio-economic realm. Rather it is the fabric of meaning through which(economic) actors interpret their experience and guide their action (Geertz). My research has found that part of that "fabric of meaning" in markets is expressed in terms of contradictory forms of action.

(next slide)

(Read the slide) Each market is its own center of gravity that creates its own culture. The balance of contradictory tendencies in a market is specific to **that** market. In my work I have found three pairs of contradictory tendencies that appear across many markets. (next slide)

(Read Slide) If markets were people, we might think of these as existential questions, such as "Should I cheat my customer or should I worry about my reputation and self-image?"
"Should I try to create a better product or should I follow the lead of other successful firms in my market?" "Should I risk my capital by investing in my venture or should I be happy with low risk and an acceptable level of profit?" But these are not meant to be seen as personal questions. Markets are social phenomena and these contradictory tendencies exist at the level of the market, reflecting the predominance of either accumulative or regulative norms in that market. The balance between the accumulative and regulative emerges out of the structural and historical conditions of a market. Market participants draw from a tool kit of norms specific to their market. For instance, in Silicon Valley, there is little question that an entrepreneur will choose to innovate.
The venture capital is often available, the incentives for success are high, and the structure of the market is such that **not** innovating may be threatening to survival. The result is a culture of innovation.

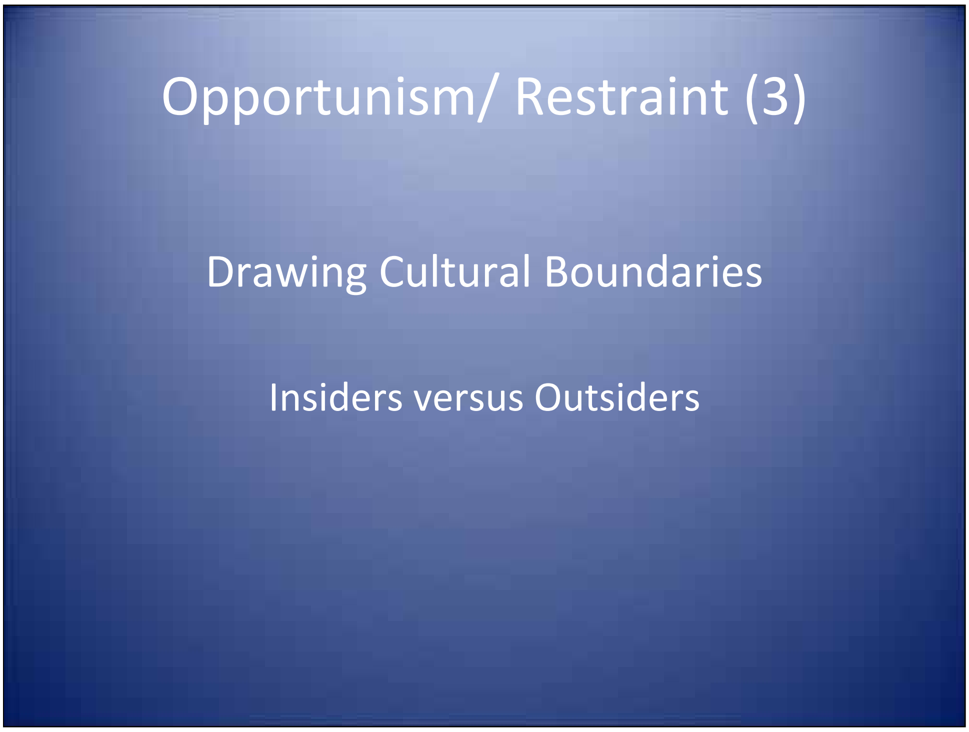
But let’s go back to the first pair I mentioned, opportunism and restraint. The first example from my research is the specialists on the floor of the NYSE. These are traders who are dealers in a particular stock, such as General Electric or General Motors. They trade with customers and for their own account. In the period from 1929 to 1962, the specialists were extreme opportunists. Even following the Crash of 1929 and the securities regulation that resulted from it, specialists on the floor were increasing their power and self interest seeking. In 1938, when the head of the Securities and Exchange Commission, a new regulatory agency at the time, declared that specialists could no longer trade for their own account, the specialists simply threatened to close the exchange. The SEC backed down. Specialists continued to use their information and position for personal advantage until the 1960s. It was an opportunistic culture.

Opportunism/ Restraint (2)

- Example : Specialists at Stock Exchange
- Historical Period: 1962 – Present
- Normative Behavior: Customer service and transparency

After a severe market break in 1962 in which the specialists on the floor failed to stabilize the market through buying for their own account, the Securities and Exchange Commission created its first rules for specialists. Later in the 1960s and 70s, as institutional traders came to dominate the market and the strength of traders receded further, the exchange itself, a private membership association, increased its oversight of the specialists in response to broker demands. By the time I did my fieldwork at the NYSE in the 1990s, as we have seen, the specialists were talking about customer service and spoke proudly of a transparent, highly regulated market. The rules, roles, and taken for granted practices of specialists had seen significant change. Old members spoke wistfully of the old culture, but trained their employees in the new one.

A similarly dramatic transformation occure3d in bond market culture, but in the reverse direction. When the Federal Reserve let their key interest rate float in 1979, the bond market went from a quiet haven for money to a place where "winning is everything."



These stories from the culture of the bond market and the stock exchange raise questions about what happens in a financial market without much oversight, that is an unregulated market. For this we can look at my research on futures markets. Like the New York Stock Exchange, futures markets formed into exchanges , mostly in the 19th century in the United States. Market makers formed associations that made rules to keep the trading ongoing. These rules mostly prevented the members from destroying their market by extreme opportunism, such as cornering the market and driving each other out of business. This maintained the going concern. But these rules were not designed to protect participants in the market who were not members of the exchange, i.e. insiders. There was a strong norm about fouling the nest, not destroying the stream of income, but outsider participants, or the wider public, who were plentiful, were fair game and opportunism was rampant. Cultures make these distinctions and enforce them.

A second cultural contradiction in markets lies in the tension between innovation and standard practice. Firms don't like rapid change. If their members have grown accustomed to standards contracts, standard, transactional procedures, and a familiar commodity they will continue with them as long as there is money to be made. But occasionally , a deviant innovator comes along and shakes things up. In financial markets, this innovator usually tells a story about enhanced profits without increased risk. At first, the establishment firms are resistant. In the case of junk bonds, i.e. the creation of a market for below-investment-grade bonds, the deviant innovator was Michael Milken at Drexel Burnham, a second tier investment bank. Other investment banks were slow to follow into this market even though profits were high, because, as one banker put it, good banks just "didn't sell that junk." But several **did** and the market grew.

Innovation/ Standard Practice (2)

- The junk bond leveraged buy-out

Milken's next innovation was the use of these junk bonds in hostile takeovers. The diffusion of this innovation was only stopped when corporations who were the targets of junk bond financed leveraged buy-outs lobbied their state legislatures to pass laws against the use of the bonds in hostile take-overs. Once again, the state was used to inhibit the most extreme cultural practices, but this time it was corporations who initiated the boundary-setting. They used the political process to inhibit a deviant innovation. Junk bonds eventually became part of the standard practice but the junk bond leveraged buy-out was set outside what is culturally acceptable and the tension was resolved. The market found a level of innovation it could tolerate.

A third cultural contradiction lies in the tension between the values of growth versus stability. Markets with low barriers to entry and high profits have a tendency to grow, attracting more sellers and increasing competition. At first, participants put their highest value on growth, as it creates new profit opportunities for them. But, over time, as competition increases, participants create niches they can defend, and look to each other to each other for shared understandings, attempting to restrain trade through cartels or cartel-like associations or attempting to capture regulatory relief in search of stability. Markets vary in their tolerance for this volatility.(new slide)

Growth/Stability (2)

- The market for money and credit and the creation of central banking in the United States.

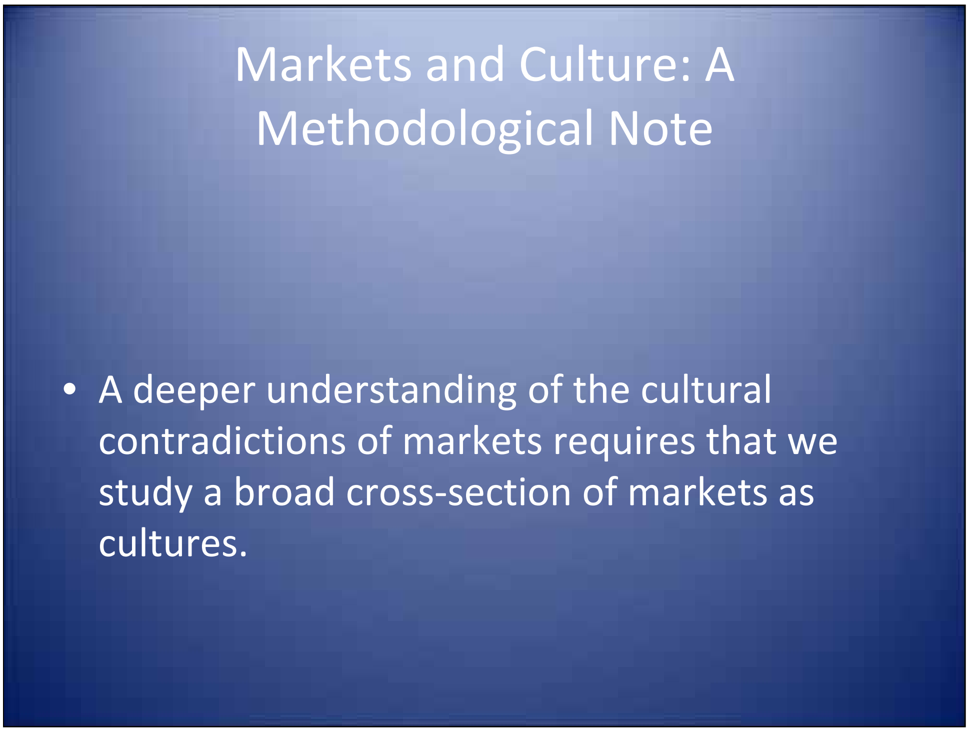
The market for money and credit is a good example of this. In the U.S. it was bankers themselves who lobbied most strenuously for a central bank at the end of the 19th century. It became clear that they could no longer tolerate the volatility in the market for money and credit. Panics had become too frequent, resulting in widespread bank closures And the market had become so large that not even J.P.Morgan, the wealthiest banker in the US, could support the market in a panic. The banking community united and lobbied for a central bank that would serve this function. Today it is the Federal Reserve that balances the contradictory impulses for growth and stability in the market for money and credit. Markets that are less central to the maintenance of the economy must resolve these contradictory tendencies with less help.

From the examples given so far, it should be clear that markets as cultures are not like independent, distant villages. They exist in the context of, and rely upon, an institutional environment. (Read Slide) This institutional environment resolves conflicts over the tendencies identified earlier and lets participants know the boundaries to which their impulses may be pursued. In fact, the differing outcomes to the perennial contradictory tendencies observed in different markets are largely explained by the resolution of earlier conflicts that have been sedimented into institutions. The stock exchange, discussed earlier, is itself just such an institution. It's rules and roles were created by traders over the course of 200 years so that they might have more predictable streams of income over the long term. The institution is infused with cultural values.

(Read the Slide) The recent financial crisis that started in the United States is a good example of this interpenetration. The crisis began with imbalances between opportunism and restraint as well as innovation and standard practice in the derivatives markets. New versions of mortgage-backed securities and insurance on these securities, credit default swaps, that were far riskier than most understood, were created and sold. What permitted these imbalances to occur was an institutional failure. Institutions like the Securities and Exchange Commission and the Federal Reserve reflected the resolution of earlier financial crises and had been given the tools to prevent the extremes of opportunism and deviant innovation that developed. These institutions were themselves undermined. They were undermined by a political process that allowed the lessons of economic history to be replaced by distorted ideology reflecting powerful financial interests.

(Read Slide) How did institutions like the Securities and Exchange Commission and the Federal Reserve come to forget the lessons of the Great Depression? The answer lies in a political Process that de-legitimated regulation and elevated market fundamentalism to an organizing principle. The markets as cultures perspective suggests that markets are not natural phenomena that normally reach equilibrium, but rather social arrangement that are supported by moral, political, and economic sanctions. When the political process fails to enforce these sanctions, then cultural contradictions go too far toward either accumulative or regulative norms. Political process requires countervailing power.

(Read Slide) Economic development cannot be managed and market failure cannot be prevented without clear recognition that market culture emerges at the transaction level, but that its contradictions are resolved by institutions that are tied to the political process and a fair representation of a cross-section of its interests. This is as true in labor and production markets as it is in the financial markets. It is the responsibility of politicians and administrators to build trust in those institutions, based on equal treatment and access. The resolution of the cultural contradictions of markets is not a natural tendency toward equilibrium, but rather an ideal of pubic policy to be attained by effective institutions.



(Read Slide) This is best accomplished by ethnographic studies of markets. It is through close observation and interviews that the researcher is able to explore the rules, roles, and taken-for-granted practices of a market. The researcher must be willing to spend enough time with market participants to really understand how they operate in their world.

There are challenges in such research. First, because in most markets corporate elites are insulated from observation and protective of proprietary information. Access to markets as cultures requires the use of personal and impersonal networks. Most of us are only one or two degrees of separation from useful informants who can help get us in.

A second difficulty is that academic research is often suspect by those in the market. I went to great lengths to learn the business, even training to become a trader, studying the academic and journalistic literature, and building a small group of close informants who could vouch for me with their colleagues.

A final difficulty involves subverting your own critical stance. Your informants will want you to share their assumptions that their world is as it should or must be. To get good data, you must be open to anything in the field, but at home, when you have all the data, the critical facility must return and the assumptions must come into question.

The Markets as Cultures Program calls for a wide range of studies across a variety of markets so that we may begin to compare the cultural contradictions in these markets and to infer the conditions shaping them. With this kind of comparative approach we will be better able to understand the necessary and sufficient role of institutions in supporting these markets and shaping their cultures.