markets are social animals

The Architecture of Markets: An Economic Sociology of Twenty-First-Century Capitalist Societies
by Neil Fligstein.
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The economic boom of the 1990s emboldened America's political and business leaders to argue that their brand of free market enterprise was the most efficient economic system in the world. In the 1980s, those same leaders had been looking to Japan for lessons about how to run the economy. The boom made it easy to believe that there is one best way to organize the economy and that America had found it.

Neil Fligstein's smart new book challenges the idea that modern economies are converging on a single set of "best practices." The commonsense view is that there is one best way of doing everything, from raising capital to trading bananas, and that competition forces individuals, firms and governments to converge on that one best way. However, the case of Japan seems to show us that in the 1970s and 1980s there was more than one effective way to organize a market. Many different kinds of market systems have proven efficient–Germany's traditional cartels, France's heavy-handed state planning, Sweden's capital-labor collaboration and Japan's state-industry collaboration.

If America's economy really reflects the only satisfactory way to organize a market, how can we explain the different forms markets take? Fligstein argues that as a subcategory of social behavior, economic behavior must be explained socially. His main idea is that people strive for stability in their interactions. We want calm predictability in the firms we run or work for, in our relations with suppliers and customers and in the marketplace. Because everyone seeks predictability, markets can remain stably organized in one way for a long time.

However, markets can change dramatically when social conditions change, as Fligstein demonstrates with an array of fascinating examples. One is the radical change in America's market for corporations, which was dominated by giant diversified conglomerates in 1970 and later came to be dominated by single-industry behemoths. In the 1970s, huge holding companies like RJR-Nabisco and General Electric bought and sold specialized companies like Sominex and NBC. But that system gave way by the 1980s, as hostile takeovers broke up firms, stock fund managers fought diversification, and Reagan relaxed antitrust regulations to allow mergers among rivals. Takeover artists and fund managers redefined conglomerates as inefficient and large single-industry firms as ideal. In short order, the market for corporations was revolutionized. Big firms spun off quirky businesses and bought other firms in their core industries. The Mercedes-Chrysler merger became the poster child for the focused firm, before it became a parable of poor management.

Fligstein shows us that new market behaviors are often no more efficient than those they replace. In the case of America's large corporations, there are rock-solid efficiency rationales for both the conglomerate and the single-industry giant. The conglomerate spreads risk across industries and allows firms to enter emerging markets. The single-industry firm allows management to concentrate on the core business and helps investors to understand their investments. RJR Nabisco broke up, as did many companies like it, not because of the undeniable superiority of the new model but because the single-industry firm became a corporate trend that was difficult to buck.

Fligstein explains corporate trends with the same factors that sociologists use to explain marriage and voting trends: group behavior, government regulations and power. First, new ideas spread through social connections, and groups carry out new kinds of behavior together. Thus a group of institutional investors challenged the conglomerate, and a group of CEOs devised the response of selling off noncore business units. Second, governments create the rules under which markets operate. Even small regulatory shifts can change corporate behavior, as when Reagan relaxed antitrust enforcement and ignited a wildfire of acquisitions. Third, economic and political power influences what corporations can and can't do. Institutional investors could challenge conglomerates because they controlled huge portfolios and because they acted in concert.

Fligstein goes on to show that these same social forces produce stark differences in national markets such as labor markets. In Germany, the labor market is oriented to vocational expertise, with highly skilled production workers and managers coming out of an educational system that trains them for specific jobs. In the United States, the labor market is oriented to professional management, with poorly skilled production workers coming out of general-studies high schools and broadly trained managers coming out of MBA programs. Germany's pattern of production workers and managers with very specific skills produces one kind of market, in which neither workers nor managers can switch industries easily. America's pattern of low-skill production workers and broadly trained managers produces another kind of market, in which workers are practically interchangeable across industries and so are managers. Fligstein recounts the history and sociology behind these two markets, but his most striking point is that different markets offer different sorts of advantages. No one kind of market offers all of the advantages, and so different kinds of markets can survive.

With evidence that different kinds of markets can persist because they offer different kinds of advantages, Fligstein argues against the idea that globalization will make all markets look the same. If one version of the market does come to dominate, Fligstein contends, it will not be because that version is superior in all ways. Instead, it will be for the sociological reasons noted, rooted in group relations, government pressures and power relations.

In titling this book *The Architecture of Markets*, Fligstein conveys the idea that modern markets are actively built by groups of individuals. Contrary to what economists tend to argue, markets do not appear magically when people meet any more than coliseums do. *The Architecture of Markets* does not challenge the idea that modern societies are on the road to greater and greater prosperity. It does challenge the idea that markets come before society, as well as the idea that they *should* come before society. Fligstein ends on a normative note. Because corporations depend on social groups and government regulations to make markets, societies and governments have every right to make demands of corporations. Because states and societies are the architects of markets, and not vice versa, markets and their leaders owe their very existence to states and societies, and states and societies should not hesitate to ask for something in return. ■

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