RISK AND UNCERTAINTY IN THE ECONOMY: HISTORICAL, SOCIOLOGICAL, AND ANTHROPOLOGICAL PERSPECTIVES

Conference at Villa Vigoni, Lago di Como, Italy, June 19–22, 2011. Co-sponsored and co-organized by the Max Planck Institute for the Study of Societies, Cologne (MPIfSS) and the GHI Washington. Conveners: Jens Beckert (MPIfSS) and Hartmut Berghoff (GHI). Participants: Bruce Carruthers (Northwestern University), Andrea Colli (Bocconi University), Alexander Engel (University of Göttingen/Harvard University), Neil Fligstein (University of California, Berkeley), Jane Guyer (Johns Hopkins University, Baltimore), Mark Häberlein (University of Bamberg), Chris Hann (Max Planck Institute for Social Anthropology, Halle), Jan-Ottmar Hesse (University of Bielefeld), Christof Jeggle (University of Bamberg), Peter Katzenstein (Cornell University), Jürgen Kocka (Social Sciences Research Center Berlin), Pierre-Michel Menger (EHEESS Paris), Stephen Nelson (Northwestern University), Federico Varese (Oxford University), Frank Wehinger (MPIfSS), Thomas Welskopp (University of Bielefeld), Clemens Wischermann (University of Constance); Sylvia Yanagisako (Stanford University).

This conference sought to bring together leading experts from sociology, anthropology, political science and history who share an interest in the investigation of economic phenomena. The challenge was that these disciplines often speak different languages, use different methodological tool sets, and subscribe to different premises. The conference tried to overcome these differences and to reap the synergies of cross-disciplinary cooperation. On the basis of pre-circulated papers, the program allowed ample time for discussion. Its interdisciplinary character was underlined by the fact that each paper was commented on by a scholar from a different discipline. The commentators included Hartmut Berghoff, Jürgen Kocka, Frank Wehinger, Jane Guyer, Neil Fligstein, Clemens Wischermann, Christof Jeggle, Bruce Carruthers, Pierre-Michel Menger, and Jan-Ottmar Hesse.

In their introduction, conveners Jens Beckert and Hartmut Berghoff highlighted that the theme, "Risk and Uncertainty in the Economy," was ideal for this interdisciplinary conference because risk and uncertainty are universal features of economic activity. Whether analyzing the behavior of medieval traders whose merchandise had to be secured against burglars or that of financial traders on Wall Street who have to close deals in highly volatile markets, one is sure to find risk and uncertainty playing a role. Beckert and Berghoff went on to delineate the four categories of uncertainty: (1) strategic uncertainty, which arises when one is dependent on the actions of others who follow their own interest; (2) uncertainty originating from contingent assessments of the value of goods; (3) uncertainty concerning product quality, which emerges from incomplete or asymmetrically distributed information; and (4) uncertainty stemming from the unknowability of the future.

The question of how economic actors deal with these sources of risk and uncertainty is relevant for all economic systems and throughout economic history. Capitalistic economies, however, are characterized by a specific tension between institutions that reduce uncertainty and institutions that create uncertainty, especially markets. Uncertainty can provide crucial opportunities to make profits but can also create problems for the coordination of economic activity and make people insecure. The position economic actors take with regard to reducing or expanding uncertainties in the economy hence depends on their class situation (Max Weber).

Bruce Carruthers opened the first panel, on "Financial Markets," with a paper on "Turning Uncertainty into Risk: The Case of Credit Ratings," which focused on the history of credit-rating agencies. As Carruthers pointed out, with decision-making on credit fraught with uncertainties, credit-rating was invented in the nineteenth-century in the U.S. to help make those uncertainties more tractable. Credit-rating methods spread widely, even before their accuracy or efficacy had been demonstrated. The origins of credit rating reveal problems and limitations that re-emerged during the financial crisis of 2008 when rating agencies performed very poorly.

Alexander Engel continued the panel with his paper, "Interpreting Futures Trading as Risk Management," which challenged the current self-understanding of futures exchanges. It is textbook knowledge that futures markets exist to help those who want to dispose of price risks (hedgers) by bringing them together with those who want to take on the risks (investors/speculators). Moreover, these institutions depict themselves as suppliers of risk management services. But futures exchanges were not established with this aim. The notion of risk, which takes center stage in current interpretations, did not enter the debate until later. In addition, Engel argues that the introduction of futures markets actually increased the total individual exposure to price risk, while at the same time allowing people to choose the exact form and structure of that exposure more deliberately. In sum, futures markets have made it possible for economic actors to take a more active approach towards risk and facilitated the emergence of a "risk economy" in which risk itself has become a key commodity.

Stephen Nelson and Peter Katzenstein's paper on "Risk, Uncertainty, and the Financial Crisis of 2008" then used the lens of uncertainty to analyze the methods of modern financial markets. They focused especially on securitization and reliance on simplified and erroneous mathematical models of risk management, as well as on the decision-making process within the Federal Reserve. They argued that the emphasis on insecurity forces one to include social and political spheres in analyzing economic activity and to reject purely macroeconomic approaches, which lead, in the words of Lawrence Summer, to a "stochastic pseudo-world."

Thomas Welskopp began the second panel, "The Underground Economy," with a paper on "Organized Crime and the Stability of Illegal Markets," which dealt with theoretical concepts he used in his analysis of the illegal alcohol business in the United States in the 1920s. Welskopp characterized this case of organized crime as the classic example of opportunistic behavior. The gangs of the Prohibition era were organization-building networks that relied on personal ties and trust relationships. Welskopp likened these networks in many ways to tribal groups, which build up complex systems of face-to-face relationships with informal hierarchies dominated by indispensable individuals without whom the whole organization is liable to collapse. The alcohol-running gangs were also integrated by conflict and violence, and yet these characteristics were at odds with organizational stability. The foundation of these organizations was therefore also, paradoxically, their Achilles's heel.

Federico Varese then spoke on "The Structure of Criminal Connections: The Russian-Italian Mafia Network." Basing his paper on a unique source, transcripts of a multitude of taped telephone conversations, Varese analyzed the extent to which this expat Mafia group developed a fluid network or a more hierarchical structure. Varese used network analysis and actor-oriented models to study the communications between various members of the cell. The findings show that, although hierarchies emerged, there were also network effects with three subgroups rather than a clearly centralized structure.

Andrea Colli launched the third panel, "Families and Economic Risk," with a paper on "Kinship and Trust: Perspectives from Family

Business Studies," which summarized the spate of recent research on the history of family firms. He examined family ownership and values both as internal features of firms and in the way they interfaced with the external environment. In both cases, he found that, on the positive side, family firms can reduce risk and uncertainty within the firm, but, on the negative side, the family element can also increase a firm's level of turbulence and uncertainty inside the organization and in its relationships with other firms, the market, and the local community. Thus, the impact of a firm being comprised of a family may be positive or negative, overall, with relevant effects on the performance and ultimately the survival of the family firm.

Sylvia Yanagisako followed with a paper titled "Sentiments of Risk: Cultural Logics of Family Business," which treated Italian family firms as one type of kinship enterprise rather than as a type of business enterprise to analyze the uncertainties and risks that their members face. This approach, she claimed, does not presuppose that kinship goals and strategies play a larger role in structuring family firms than business goals or that these firms are essentially kinship organizations. Rather, the approach is essential to deepening our understanding of the dynamic interplay of trust, betrayal, uncertainty, and risk in family firms. It also challenges the concept of the "economic," moving beyond the idea that economic activity is embedded in cultural, social, and political configurations to recognize that it is all of these at once. Among family firms in Como, the goals people pursue are not limited to the maximization of profit or even the survival of the firm but include, more importantly, achieving independence and winning the distinction of being the head of a family and a firm, as well as the enduring loyalty of children and the esteem of the community.

Chris Hann concluded this panel with a paper based on the observation of "Uyghur Peasant Families" and their communities in western China. Discussing the characteristics of Uyghur farmers' unique social networks, Hann pointed out that Uyghur culture emphasizes personal contact in the family and the community to establish, develop, and maintain good relationships between kin and non-kin. Uyghur value, which is deeply rooted in Islam and its ethnic identity, is the guiding principle in family and social events. While socialism—which Hann defines as an attempt to eradicate all uncertainty from peoples' lives—greatly obstructed this way of life, it never completely destroyed it. This reveals why the Uyghur farmers highly mistrusted the grassroot mechanisms of establishing secure relations.

The fourth panel, on "Institutions and Uncertainty in the Economy," began with Mark Häberlein's paper on "Competition, Cooperation and Trust in Early Modern Merchant Networks." Long-distance trade in the early modern period was marked by various types of uncertainty. While merchants were able to cover specific risks by resorting to innovations such as marine insurance and the dissemination of commercial information, Häberlein shows that they mainly relied on social strategies and cultural practices. First of all, kinship ties formed the basis of most mercantile firms because in premodern societies these ties entailed social obligations and generated social capital within unstable environments. In addition, wider networks developed that were both professional and friendly. Secondly, early modern merchants from specific locations or regions routinely collaborated with one another because common origins, religious affiliations, and commercial specializations fostered cooperation to reduce transaction and information costs. Thirdly, cooperation between merchant companies across cultural boundaries took place because iterative business activity generated trust. Finally, early modern patterns of commercial education and language learning as well as the adoption of common business practices promoted the cultural formation of international merchant communities.

Jane Guyer then talked about "Domains of Exchange and Value," re-examining the anthropological and historical accounts of monetary transactions in Atlantic Africa. One key problem is the exchange among multiple currencies, especially along the hard and soft currency divide. Money changers have to possess a variety of occupational skills, including monitoring, protecting, promoting; training in how to count and convert currencies, how to distinguish real from counterfeit money, how to hide and to transport it, and distinguishing between when to write up documents of trust and when to simply trust in others. Money changers enable people on the margins of society to make a living and to purchase even the basic necessities of life. The "realities" and "representations" of monetary value are mediated by a vast army of local experts.

Neil Fligstein presented the final conference paper on "The Role of Government in the American Mortgage Market, 1966–2010," which demonstrated that the 2007-2009 financial crisis was centered on the nonconventional mortgage industry. In essence, financial institutions drove the housing bubble in their desire to vertically integrate and mass-produce MBS and CDO in order to reap profits at all phases of the securitization process. From the early 1990s, they evolved in a way that enabled them to innovate and engage in more and more profit-making activity. The "industrial" model—fueled by the low interest rates of the early 2000s—was enormously profitable as long as housing prices were rising and the size of the market was growing. The main source for mortgages from 2001 until 2004 was the conventional mortgage market, but beginning in 2004, in order to keep their industrial model going, the industry's main players shifted their attention to subprime mortgages where even higher profits could be had. After elucidating four different theoretical approaches—"financialization," "actor-network / performativity", "perverse incentives," and "markets as politics"—Fligstein concluded that the "markets as politics" approach accounted for the social structuring of the market from 1990-2008. Moreover, an "industrial conception" of control, wherein financial firms integrated vertically in order to capture profits at all points along the value chain, had come to dominate the industry.

Jens Beckert (MPIfSS) and Hartmut Berghoff (GHI)