UNIVERSITETET I BERGEN
Sosiologisk institutt

Conceptualizing the financial maelstrom - Can qualitative micro-data contribute to an understanding of economic macro-phenomena's nuts and bolts?

Philosophy of Science Essay, Spring 2013

By Tomas H. Løding

"Usefulness is the operative criterion here, not truth."
- Anselm Strauss (1993:22)

Introduction

After the 2008-2010 meltdown of international financial infrastructure, it would perhaps be intuitive to expect a substantial intellectual revision of economic theory's dominant tenets. One of the main characteristics of the crises could be seen as a vast, and increasing, number of investors placing their financial bets on assets so inflated that they no longer had any relation to the present or future cash flows of the underlying asset. In other words: the American and several European economies were experiencing a great financial asset bubble. In a Congressional hearing only weeks after the bankruptcy of Lehmann Brothers – the incident that triggered a crash in the prices of stocks, bonds and other financial assets – former chairman of the Federal Reserve and iconic laissez-fair economist Alan Greenspan declared himself in a "state of shocked disbelief[1]" as reckless lending and distribution of securitized debt had become a dominant feature of the American economy. Referring to his free-market ideology, Greenspan said he had discovered a "flaw" in his model, namely that banks and other financial institutions did not protect their owners interests[2] like they should according to financial theory. Hence, in aggregate financial actors had (and hence markets) simply not been acting rationally.

[1] http://www.nytimes.com/2008/10/24/business/economy/24panel.html?_r=0
[2] http://economix.blogs.nytimes.com/2008/10/23/greenspans-mea-culpa/

Neoclassical economic theory (which will be defined and elaborated later on) is hence presented with two interrelated challenges: for one financial markets turned out not to be conveying "correct" price signals. This is an important challenge because conventional financial theory assumes that these types of markets are ideal-typical with respect to transparency and ability to divide, price and redistribute risk and capital efficiently; it's the market`s main *raison d'être*. Hence, those trying to understand the functioning of these markets should ask new fundamental questions of the workings of the financial institutional structure, as well as on the nature of economic action. Secondly, the events of the financial crises illuminates the core problem of how to produce explanatory models for economic macro-phenomena. If actors cannot be *assumed* to act *in aggregate* according to neoclassical economic theory, then one must ask how modeling of these phenomena can be conceptualized. A position opposing the hegemonic model of neoclassical economics could of course be any number of approaches refusing core aspects of the neoclassical reductionism (Keen 2011). In this essay I will discuss the possibilities for making generalizing claims based on micro-data of economic actors concrete actions and decision-making. Secondly I will use *one* specific research strategy and methodological approach to understand economic phenomenon's to exemplify this, one that lends its methodological lens to interactionist and pragmatist sociology. I will use my own qualitative research as a case.

But when doing such a meta-exercise, it is important to remember the context in which academic economics finds itself: the biggest and most important economic macro-phenomenon after world war two – the great financial crises erupting in 2008 – was not predicted nor explained by mainstream neoclassical economics[3]. When evaluating the consequence of this for economic theory, FED`s current chairman Ben Bernanke simply claimed that their neoclassical standard model not at all was constructed to predict a major financial crises. He said:

> "Do these failures of standard macroeconomic models mean that they are irrelevant or at least significantly flawed? I think the answer is a qualified no. Economic models are useful only in the context for which they were designed. Most of the time, including during recessions, serious financial instability is not an issue. The standard models were designed for these non-crises periods, and they have proven quite useful in that context." (cited by Keen 2011:16)

He indicates that the standard macroeconomics rests on assumption that does not apply under conditions of these extraordinary market eruptions. Furthermore, the volatility and uncertainty of economic conditions over the last 4-5 years increasingly makes it harder for actors to predict and forecast the future price and yield of their investments. The result being that economic action, far from a pure and rational enactment of actors' inner preference hierarchies, necessarily gets entangled in a

[3] Of course, not everyone was in a state of shocked disbelief. Many economists actually did warn of the massive real-estate bubble that grew in many western countries in general, and especially the USA. For a review, see e.g. Bezemer (2009).

much more messy alchemy of different methods for coping with uncertainty[4]. No matter the actual difficulties market-actors face when thinking and planning strategically, decision-making still need to proceed as if the future were nothing but a series of events marked by calculable risk. Hence, one cannot simply stop the flow of economic decision-making until the social realm we call a market is conveying to a formal logic of free and autonomous atoms responding to "correct" price signals[5]. My own former work is an example of a study of the deployment of such micro-methods:

The puzzle of economic micro-data

Writing my MA-thesis on dubious financial management strategies among Norwegian municipalities (Løding 2011), I was struck especially by two seemingly interrelated phenomena. First, the degree to which my informants (elected municipal officials) invested vast sums of capital on the basis of very little information and calculated effort. According to Bichler and Nitzan (2010) the "forward-looking" nature of capitalization is increasingly being replaced by a financial due diligence based on historical performance. But my informants never seemed to even attempt at evaluating the past nor the future cash flow of the assets in which they invested. Instead they relied on other mechanism and methods for determining their allocation of investment fund, wrapping financial management strategies in an awkward mix of hubris and trust-based relations. For my Phd-project I seek to study in more depth the strategies and methods from which public sector organizations and actors maneuver in financial markets. Primarily, I use regular semi-structured interviews trying to figure out how municipal financial managements are organized and play out, how strategies are carved out and change and the nature of their institutional logic[6] and rationale. Naturally this involves discarding core aspects of the neoclassical model of economic behavior. One could say that economists assume what needs to be explained; namely the properties of economic action. But if the core action-theoretical assumptions from which neoclassical economics build their models are rejected, then the main thrust of that model – making powerful macro explanations and predictions – falls with it. Hence, equipped with a research strategy aimed at producing qualitative micro-data on the meaningful behavior of economic agents

[4] The essential distinction here is one between *uncertainty* and *risk*, originally formulated by Frank Knight (1964). The former refers to the character of situations in which agents cannot anticipate the outcome of a decision and cannot assign probabilities to the outcome, while the latter signals actors ability to do just that. Financial theory presupposes the latter condition. If actors lack vital information or cannot calculate the parameters rationally due to complexity and uncertainty, then the abstract notion of the rational actor in financial models is a misleading conceptualization (see e.g. Beckert 1996, 2003).

[5] John M. Keynes himself made this point as eloquently as always: "By "uncertain" knowledge, let me explain, I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject, in this sense, to uncertainty; nor is the prospect of a Victory bond being drawn. Or, again, the expectation of life is only moderately uncertain. Even the weather is only moderately uncertain. The sense in
which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest in twenty years hence, or the obsolescence of a new invention, or the position of private wealth owners in 1970. About these matters there is no scientific basis on which to form any calculable
probability whatever. We simply do not know. Nevertheless, the necessity for action and for decision compels us as practical men to do our best to overlook this awkward fact and behave exactly as we should if we had behind us a good Benthamite calculation of a series of prospective advantages and disadvantages, each multiplied by its appropriate probability, waiting to be summed." (Keynes 1937:213-214)

[6] The notion of an "institutional logic" is taken from institutional theory and refers to broad cultural beliefs and rules that structure cognition and shape decision making, perception of rationality, appropriateness of organizational solutions etc. within a field. Such logics provide "the formal and informal rules of action, interaction, and interpretation that guide and constrain decision makers in accomplishing the organizations task" (Thornton & Ocasio 1999:804). See e.g. Thornton and Ocasio (2008), and for how these affect field-specific key economic decision makers` strategies see Lounsbury (2007).

rather than modeling economic phenomena based on the aggregate actions of a standardized utility maximizing neoclassical economic man – to what degree can I contribute to better understand some of the more pressing macroeconomic phenomena of our time[7]? It is this questions that I will pursue in the following. As an exercise it is meta-theoretical in the sense that it does not seek to establish empirical assertions or evaluate substantive theories for selected domains of phenomena, but rather investigates "questions dealing with the conceptual definition and description of the domain of sociology or the social sciences in general" (Joas 1993:43). The paper is hence not an attempt at disproving any one theoretical or methodical position, but rather on the reflexive exercise of constructing the scientific object (Bourdieu & Wacquant 1992), the scientific object here being the properties of economic macro phenomena.

I will begin by positing the basic tenets of neoclassical economics and what I perceive to be its main strength: the ability to explain macro-level phenomena by generating a model based on only a small set of action-theoretical assumptions. In a sense this could be seen as a form of caricature. The idea then is not to describe the still diverse field of economics, but to establish the basic forms of analytical micro-macro-leap, which is still pretty consistent. Then the question arises; can an alternative notion of economic behavior based on more realistic, empirically grounded assumptions generate concepts or models – or at least a better understanding of – the same broad macro phenomena? The issue is hence the extent to which one can make generalizations based on qualitative data. But also: what type of generalization can be drawn from these types of research?

The Action-theoretical assumptions of a micro to macro linkage: abstractions in neoclassical orthodoxy

What is the relation of the micro-to-macro-link that is so essential in neoclassical economics? The essence of the standard model[8] has always been autonomous actions of free and peaceful micro-actors, with a natural "propensity to truck, barter and exchange" as Adam Smith famously put it. Where much of the social sciences quantitative branches are preoccupied with constructing *explanatory* models of social phenomenon (meaning; applying statistical methods to data in order to test causal hypotheses), the "dismal science" of economics is also – and maybe more – interested in making good *predictive* models (Shmueli 2010). Of course, economists test hypotheses and construct explanatory models, but the thrust of the discipline has from the outset of political economy, as the subject of economics was called in the 18th and 19th century, been to formulate advice on what was to be done in economic matters, and make accurate predictions or economic weather forecasts (Sen 1986, Shmueli 2010, Keen 2011). Now, to do just that, economics puts forward a set of assumptions that any sociologist – and probably most economists – would admit are completely unrealistic. Most

[7] I think here of course of the great financial crises, the role and growth of the financial sector. This is an area where we do have a great deal of empirical data on broader macro-phenomena and institutional change (e.g. Krippner 2005, Epstein&Jayadev 2005, Crotty 2007, Palley 2007, Stockhammer 2008).
[8] For the paradigmatic textbook presentation of the neoclassical standard model, see Samuelson and Nordhaus (2005). For a rigorous critique coming from within economics see for example Keen (2011).

importantly, they involve the notion of *homo economicus* – the economic man – that rationally allocates his or hers resources according to a kernel of hedonism. This action-theoretical reductionism and standardization of the analysis` basic unit is vital as long as the aim is to aggregate these at first seemingly heterogeneous multitude of actions. If neoclassical economists were not to assume rational behavior, neither could they represent what they call "the market demand curve"[9], which together with the supply curve sets prices at the marginal cost of production (meaning the additional expense of producing one more unit of output). This is the *equilibrium*, a feature of competitive markets. But for this to happen, at least one more assumption is required, namely that actors generally possess all relevant information when calculating what is to be the optimal distribution of utils. Hence, for e.g. financial markets to function properly, investors need perfect information of assets risk-return profiles. In the so-called "Efficient Markets Hypothesis" economists assume that prices reflect all relevant information pertinent to the future prospects of traded companies. Actors hold rational expectations, and update these as new information emerges. Some might overreact and some may underreact. But all that is required is that investors' reactions be random and follow a normal distribution pattern so that the net effect on market prices cannot be reliably exploited to make an abnormal profit – assuming an even distribution of information, hence. From the *individual* investor or consumer, these propositions hardly hold much water.

However, when confronted with the hopelessly unrealistically assumptions (and here my own master-thesis clearly show how several of the most central components not at all describe the concrete actions – even in the markets where they are supposed to be the most conform – financial markets) from which they construct predictive and explanatory models, economists often dismiss the critique on the grounds that what they are trying to do is *not* to explain micro-phenomenon. The assumptions of rationality, maximization, full information and equilibrium are just analytical tools to construct models able to predict future events, rather than based on realism or observation. The proposition that "assumptions don't matter" was most clearly argued for by Friedman (1955:14-15) who wrote:

> "Truly important and significant hypotheses will be found to have "assumptions" that are wildly inaccurate descriptive representations of reality, and, in general, the more significant the theory, the more unrealistic the assumptions (in this sense). The reason is simple. A hypotheses is important if it "explains" much by little, that is, if it abstracts the common and crucial elements from the mass of complex and detailed circumstances surrounding the phenomena to be explained and permits valid predictions on the basis of them alone (…) the relevant question to ask about the "assumptions" of a theory is not whether they are descriptively realistic, for they never are, but whether they are sufficiently good approximations for the purpose at hand."

[9] The rational consumer purchases the combination of e.g. consumer goods which maximizes her utility. Here, already of course, assuming that the notion of "utility" is itself something that can, and is – from the individual consumer point of view – standardized into indiscriminate units, or "utils" (Keen 2011:40), ordered in the individual consciousness as a stable hierarchy of preferences.

Hence, neoclassical economics tends to see major events and economic fluctuations as having non-economic causes[10]. The free market economy will if it is not disrupted by external shocks gravitate towards equilibrium, and the only endogenous change that one can observe in such a system is the switch from one equilibrium to another. As is the case with the other assumptions, the idea of stable equilibriums is not argued for by observation or former research. According to Sen (1986:9) proponents of equilibrium-theory "have not, in fact, defended it with elaborate empirical case study. Rather, the defense has taken the form of pointing to the intuitive plausibility of this way of proceeding"[11]. This logical plausibility rests on solid ground as long as one accepts the fundamental assumptions. Could it be otherwise?

In fact, the proposition that assumptions don't matter should imply that neoclassical economics should be prepared to accept a theory that assumed irrational behavior as the core of the human condition – *if* the model generated was to predict future economic fundamentals in an accurate way. Keen (2011:164) makes the point, however, that "it is almost impossible to have an article accepted into one of the mainstream academic economic journals unless it has the full panoply of economic assumptions." Hence, Keen concludes that far from assumptions not matter in economics, assumptions rather "drove the development of economic theory" (Ibid.). Point being: it is the construction of successful equilibrium models that is the aim of neoclassical economics , a goal that is both predictive and prescriptive. To make the powerful prescriptions that they do, the fundamental assumptions are unavoidable. An abstract model follows, logical and rigorous, but not necessarily grounded in the concrete actions of economic actors, nor in the actual functioning of markets. Hence, when the self-going system of an economic equilibrium is disrupted or experiencing major fluctuations, it has to be the cause of external shocks. This is what Bernanke meant when he said that the models from which the FED predicts the movement of the American economy are not constructed, nor meant to apply for, situations like the one regulators experienced in 2008. The equilibrium model is meant to describe, prescribe and predict just that, a *ceteris paribus* calm evolution of the underlying fundamentals. It also illuminates what his predecessor Greenspan meant when he in a short moment of despair claimed he had found a "flaw" in the model. Suddenly, to Greenspan, the events which he was making a statement on – a major disruption in the functioning of the financial markets – was not at all clearly explained by forces external to the market mechanism itself.

The type of inference made by neoclassical economics is hence abstract in nature. Standardized micro-units are aggregated into a model predicting future events and (hopefully) testable up against this. What then, if one is to do the somewhat exact opposite: rather than standardizing the actors

[10] Frisch (1933:171) for example postulated that «the majority of the economic oscillations which we encounter (…) seem to be explained by the fact that certain exterior impulses hit the economic mechanism and thereby initiate more or less regular oscillations.». Interestingly enough, he formulated this in the middle of the Great Depression, an event that one could at least claim hardly was caused by "external impulses".

[11] In the same vein, Keen (2011:67) sums up the neoclassical analysis of the rational consumer where he finds one "striking empirical fact about this whole literature, and that is that there is not one single empirical fact in it. The entire neoclassical theory of consumer behavior has been derived in "armchair philosopher" mode, with an economist constructing a model of a hypothetical rational consumer in his head, and then deriving rules about how that hypothetical consumer must behave."

using few and unrealistic assumptions aimed at testable macro-predictions, we ground the analysis on fuzzy qualitative micro-data involving actors experience and life-world. What type of general knowledge could that produce about these events that necessarily must be a product of the same actions?

The grounded approach – conceptual generalizations on how micro-economic behavior forms macro-economic outcomes

The strand of sociological theory which is chosen to present as the neoclassical standard models opponent is not coincidental. For one it relates to my own PhD-project. But it also confronts the action-theoretical model of academic economics in a radical different way than does the traditional sociological economic theorizing. The traditional sociological critique of modeling strategies that proceed from the notion of the isolated, autonomous and rational *homo economicus* tends to start with the simple observation that actual economic decision making does not fit the model. Then one sets out to construct a theoretical counter-concept that interprets economic action as influenced by different external variables. The paradigmatic distinction here being summed up by Hirsch (et.al. 1987:6):

> "The most basic difference between economics and sociology concerns their assumptions about human nature. The famous homo economicus is a rational, self-interested, instrumental maximize with fixed preferences. Homo sociologicus, by contrast, is much harder to define. Closer to a tabula rasa upon which historically developed institutions, societies, and cultures write, the sociological "model of man," rather than assuming fixed preferences, treats values, attitudes, and behavior as fluid and changeable. Actions follow from culturally given values, not just some pure (culture-free) calculation of individual self-interest."

This provided economic sociology, and especially different varieties of functional arguments coming from Parsons, with a microfoundation from which to explain economic macro phenomena and at the same time challenge the concept of the *homo economicus*. But also later theoretical impulses constructed as critiques of functionalism, for example parts of the "embeddedness"-perspective as promoted in the "New Economic Sociology" (Guillen et.al. 2002), tend to treat human action to *be explained by* certain external properties, be it the internalization of norms and values for conduct, network-connections, distribution of a series of resources etc. With opposite causal arrows they link economic macro phenomena with micro behavior and consciousness. All this is good and illuminates economic processes in other ways than the neoclassical standard model. In my own project I adopt an action-theoretical stance that builds on interactionist and pragmatist sociology that puts focus on a much more grounded approach bringing the hermeneutic interpretation of economic action much closer to empirical reality.

By “interactionist” sociology, I mean a perspective that derive core theoretical and methodological tenets from the Chicago School, symbolic interactionism and pragmatic philosophy[12]. As is the case with neoclassical economics in the above sections, I will only review a few important theoretical assumptions and sketch out how one from these theoretical and methodological choices can arrive at models of macro-level phenomena. The difficulty arises as no model for these phenomena can be constructed *a priori* on the basis of unrealistic assumptions. On the contrary, the analysis is intended to be immersed in empirical real-world data of action and interaction.

The actor in interactionist sociology has – in opposition to the neoclassical rational man – specific characteristics and competences that render her distinctively social. We are a “intention-implementing species”, to borrow Maines (1982:277) phrase. Where economist *assume* a range of properties that characterizes human behavior and agency, and build a model which presupposes these, interactionist sociology offers no dogma or orthodoxy, but rather evaluates theoretical assumptions after their usefulness for understanding the subject at hand (Strauss 1993). Action-theoretically, this epistemological stance comes in a direct line from pragmatist philosophy which was generated in Chicago in opposition to the reductionism of positivism, behavioral psychology and the like. For pragmatists action is *ongoing*, continuous process embedded in interaction (hence constitutive social). They carry meanings, locatable within systems of meanings. The external world is a symbolic representation that is created and re-created only through interaction. Action has rational aspects, irrational aspects, and emotional aspects. It has overt-qualities and covert qualities. Overall then, acting is a broad concept covering the full creativity of the human condition[13], and in these respects the complete antithesis of the neoclassical reductionism. An important aspect is the opposition of pragmatist philosophy and interactionist sociology to the series of dualisms that characterizes most social scientific endeavors, and their attempt to dissolve these. They include that between body and mind[14], fact and value, micro and macro, subject-object etc. This engenders a methodology that supposes “an experimental approach to investigation, which is the direct contact with investigated subject-matter, i.e. institutions and beliefs which accompany them” (Yefimov 2003:5). Such “direct contact” is possible to achieve through a whole range of data, from participant observation, interviewing, case studies, formal documents and so on. The goal is to let hypotheses and research questions flow from real-world problems rather than deducted from formal theory. A close familiarity with the field or phenomena to be studied is hence vital. Why this is so important, is here explained by Blumer (1969:36):

> “(…) the research scholar in the social sciences who undertakes to study a given sphere of social life that he does not know at first hand will fashion a picture of that sphere in terms of

[12] For a good review of the concept of «Interactionism», see e.g. Atkinson and Housley (2003).
[13] For a more schematic overview of interactinist assumptions to action, see Strauss (1993:23).
[14] What could be called the father of pragmatism, Charles S. Pierce, refused to accept the Cartesian dualism of body and mind. According to Pierce, the “radical doubt” – the belief that we know our own thought better than we can know the external world (*cogito ergo sum,* which makes all verification the assuagement of personal doubt)) – is false (Yefimov 2003:2).

> pre-established images (…) in the place of being tested and modified by firsthand acquaintance with the sphere of life they become a substitute for such acquaintance. (…) in place of exploration and flexible pursuit of intimate contact with what is going on, reliance is put on starting with a theory or model, posing a problem in terms of the model, setting a hypothesis with regard to the problem, outlining a mode of inquiry to test that hypothesis, using standardized instruments to get precise data, and so forth."[15]

This postulate of defining the problems of research, and conceptual framework applied, in terms of a close familiarity with the subject-matter at hand has become widely used within qualitative research[16]. But how can a grounded approach based on these premises form a conceptual framework for macro-phenomena when 1) data is mostly micro, 2) theory generated is not to be simple deductions of formal theory, and last but not least 3) when the micro-macro dualism is rejected altogether?

Strauss (1993) and Corbin and Strauss (2008) offers at least one possible answer. As already mentioned these authors claim that the micro-macro dualism is a distortion. This is because "most situations are a combination of micro conditions (those close to the individual) and macro conditions (those more distant from the individual, i.e. historical, social, political etc., conditions)" (Ibid.:91). The job for the researcher is to trace the relationships between micro and macro problems, situations and events. This process the authors call "tracing conditional paths". He or she need to study the interplay, their influence on each other and subsequent inter-action. The analytical tool which they construct they call a "conditional matrix" (Strauss 1993:60) which is represented as a set of circles, one inside each other. In the outer rings we find those "conditional features" that *most distant* to the action/interaction of individuals. Then subsequent rings until us in the inner circle find those conditions that analysis show *most closely* relates to interaction. The researcher "needs to fill in the specific conditional features for each level that pertain to the chosen area of investigation" (Ibid.:61). For example one might conceptually identify an outer ring for international relations and events, a second could be a national ring or realm where we might find governmental political relations, culture, regulations, problems and issues. Then there might be a community level with specifications of the above mentioned that gives it singularity. In the inner circles we find the interactional level of analysis, i.e. where the various forms of "action, talk, and thought processes that accompany the doing of those things" (Ibid.:62).

The central point for us is that the specific matrix and conditional paths are opaque until the researcher "*with due concern for data*, gives them meaning and specificity" (Ibid.:65 italics added). Thus, phenomena of various scope and scale are connected to processes of action/interaction and the other way around. The concepts generated are to be directed towards central problems emerging from data, rather than being deduced from an abstract theoretical framework. This, the proponents claim,

[15] This procedure is very much in line with Friedmans methodology for economics when he claims that «A theory is the way we perceive "facts", and we cannot perceive facts without a theory" (Friedman 1953:34).
[16] Especially in the tradition following Glaser and Strauss` (1967) "Grounded Theory".

gives the analysis sensitized and grounded concepts through immersion in data on phenomena at different levels.

We have seen how neoclassical economics make generalizations via equilibrium models that are based on fundamental assumptions on the properties of economic action. What types of generalizations can be drawn based on the types of data generated from this radical different methodological approach to i.e. economic phenomena?

The status of generalizations – statistical inference or theoretical generalizations?

There is no general consensus as to the generalizability of qualitative research. And furthermore, among those claiming that also qualitative micro-data can form the basis of generalized claims, do not necessarily agree whether these can serve as empirical generalizations (as is usually the case with standard statistical inference) (Gomm et. al. 2000), or if qualitative analysis needs to strive for a different, theoretical or conceptual (Tjora 2012) types of generalizations.

One argument claims that no generalizations can be drawn from single case or low-N studies at all. Case-studies, the argument claims, needs to make "thick decriptions" (Geertz 1983), trying to capture the authenticity and uniqueness of a case or a phenomenon. Such a strategy is of course futile if the aim is – as is the case in my PhD-project – to "say something" about phenomena of larger scope than the concrete cases from which I have empirical data. A somewhat similar argument says that qualitative research should not try to make "scientific generalizations" (Stake 2000). However, it can facilitate learning on the part of those who use them. Meaning that even though the status of qualitative research does not allow generalizations from one selection of cases over to another, one can – through a "thick" enough description of the relevant case – set the reader in a position to determine whether it is applicable to other cases. The original empirical case is then "transferable" (Ibid.).

It seems to me that the generalizations one can make based on the type of analysis outlined above is more than "thick descriptions". But certainly short of the statistical inference made in most quantitative social research. Nor, as we have seen, is it anyway near the type of predictive models constructed in neoclassical economics. Tjora (2012:215) proposes what he calls "conceptual generalizations", which seek to establish typologies, concepts and models that are meant to give micro-data the potential for broader generalization and relevance. Other research can here be drawn in to saturate and substantiate the conceptual framework or the propositions made. The generalizations drawn are then *moderate*, in the sense that their scope is limited and hence not attempts to produce sociological statements that holds over vast periods of time, different cultural, political and economic systems etc. (Payne & Williams:297). They are also continuously open to change, as new empirical data modifies them, or propositions constructed on the basis of them are confirmed or refuted. The type of analysis

discussed under paragraph 2.1 could be seen as under the umbrella of these moderate, conceptual generalizations. Analysis of action/interaction are saturated by other types of grounded empirical data and analysis on different levels, where it is the substantive issues emerging from the field of research that defines the dialectic process of data/theory. What could all of this look like in an analysis that addresses events relating to the financial meltdown of 2008-9?

The "Terra-scandal" and conditions for the financialization of everything

I began my MA-thesis with several questions relating to an event that caused much public upheaval in Norway in the fall of 2007, just as the world's financial infrastructure started to unravel. The infamous "Terra-scandal" consisted of a total of eight municipalities that all had borrowed large sums of money with future hydropower revenues as security, for then to invest these in highly complex financial instruments based on American collateralized sub-prime mortgage-debt. The American housing-market, of course, crashed causing large losses and cutbacks in Norwegian municipal budgets[17]. I was wondering how this could happen and how this related to the unraveling financial crises. And I was questioning how a resource like hydropower all of a sudden had become a regular financial asset.

Hence, I interviewed several municipal mayors, some involved in the big scandal, and some that had done much the same, but with somewhat less of a catastrophic result. Among the important things I found that related to the "financialization" of municipal asset-management were: the difficulties of planning long-term municipal service provision due to financial fluctuations and the ways these influence budgets through accounting principles – the specific ways that municipalities brought in expertise from the financial sector in which they placed a great deal of trust – the role that the historical trajectory of the Norwegian hydropower sector have had since liberalization in 1992, where the provision of electricity is no longer a "public good" but rather a financial asset meant to yield dividends – and the shifts in strategic thinking where actors no longer considered it rational to invest and organize locally owned hydropower production, but rather followed a "financial logics" where the *summum bonum* is the optimally diversified financial portfolio given the wanted balance between risk and expected profit (Løding 2010).

A strategy following the logics sketched out above would have to try to connect data on events of larger scope with the concrete actions of the selection of municipalities. For example: one of the hardest tasks my informants had to deal with was securing stability in revenues. As the price of electricity fluctuates dramatically around the end of the last millennium, this got increasingly difficult. Spreading investment over different markets and assets can be one way of doing this, or so they thought. At the same time relations and interactions in the contact surface between the public and financial sector increases, and new ideas on asset management diffuse into Norwegian municipalities. This is all close to the inner circles of a conditional matrix. A little further out one could point to the

[17] See Hofstad (2008) in addition to Løding (2010) and Jøntvedt (2011)

national juridical framework which i.e. commands local governments to manage their assets to a "satisfactory return", but without risking "significant financial risk", opening up a wide range of local interpretation (hence, feeding back into the inner circles), or the states implicit acceptance of using financial markets as way of managing natural resources through establishing its own sovereign wealth fund of oil revenues – something which clearly influence the ways financial actors proposals of the same types of arrangements are interpreted within local governments. Of course the events of the "Terra-scandal" also have a global level where the enormous and continuously increasing profit-rates in the financial sector contra regular production of goods and services, and not least the vast asset-bubble in the US combined with new financial "technology" for transmitting it, is very much relevant to understand what really happened. At the same time, the local interaction also feed upwards, since the great financial crises partly *is* the consequence of a greater amount of increasingly heterogeneous actors acting and interacting within a institutional environment that promotes financial speculation. Grounded data on each of these levels saturates the analysis which started from concrete problems facing municipal mayors struggling for the rational way of doing asset-management.

Concepts generated from such an analysis could not at all make the wide empirical predictions that neoclassical economics seek to establish. But it can provide concepts and models meant for interpretation in different contexts that later would be revisable as ever new events and data emerges. This could be a valuable goal for a scientific endeavor that still can aspire to be cumulative.

References

Atkinson, Paul & William Housley (2003): *Interactionism – An Essay in Sociological Amnesia*: SAGE Publications Ltd.

Bezemer, Dirk J. (2009): "No One Saw This Coming": Understanding Financial Crisis Through Accounting Models": MPRA Paper No. 15892, available at: http://mpra.ub.uni-muenchen.de/15892/

Beckert, Jens (1996): "What is Sociological about Economic Sociology? Uncertainty and the Embeddedness of Economic Action": *Theory and Society*: Vol. 25, Nr. 6, side 803-840

Beckert, Jens (2003): "Economic Sociology and Embeddedness: How Shall We Conceptualize Economic Action?": *Journal of Economic Issues*: Vol. 37, Nr. 3, side 769-787

Bichler, Shimshon & Jonathan Nitzan (2010): "Systemic Fear, Modern Finance and the Future of Capitalism": *Dissident Voice.* 26 July: available at: http://bnarchives.yorku.ca/290/

Blumer, Herbert (1969): *Symbolic Interactionism – Perspective and Method*: Englewood cliffs, New Jersey

Bourdieu, Pierre og Loic J.D. Wacquant (1993): *An Invitation to Reflexive Sociology*: University of Chicago Press, Chicago

Corbin, Juliet and Anselm Strauss (2008): *Basics of Qualitative Research – 3e*: SAGE Publications

Crotty, James (2007): ”If financial Market Competition is so intense, Why are Financial Firm Profits so High? Reflections on the Current ”Golden Age” of Finance”: *Workingpaper Series*: Nr. 134: P.E.R.I, University of Massechusetts Amherst

Epstein, Gerald A. og Arjun Jayadev (2005): ”The Rise of Rentier Incomes in OECD Countries: Financialization, Central Bank Policy and Labor Solidarity”: i Gerald Epstein (ed.): *Financialization and the World Economy*: Edward Elgar Publishing Inc.

Friedman, Milton (1953): *Essays in Positive Economics*: The University of Chicago Press Ltd, Chicago

Frisch, Ragnar (1933): “Propagation problems and impulse problems in dynamic economics”: in *Economic Essays in Honour of Gustav Cassel*: George Allen & Unwin Ltd, London

Geertz, Clifford (1983): *Local Knowledge – Further Essays in Interpretive Athropology*: Basic Books

Glaser, Barney and Anselm Strauss (1967): *The Discovery of Grounded Theory: Strategies for Qualitative Research*: Aldine Publishing Company, Chicago

Gomm, Roger, Martyn Hammersley & Peter Foster (2000): “Case Study and Generalization”: in Gomm et. al. *Case Study Method – Key Issues, Key Texts*: SAGE Publications Ltd, London

Guillen, Mauro F. et. al (2002): *The New Economic Sociology – Developments in an Emerging Field*: The Russell Sage Foundation

Hirsch, Paul, Stuart Michaels and Ray Friedman (1987): “Dirty Hands versus Clean Models – Is sociology in danger of being seduced by economics?”: *Theory and Society*: Vol. 16, p. 317-336

Hofstad, Morten (2008): *Eventyret om TERRA – og de åtte små kommunene som dro til Wall Street for å bli rike*: Hegnar Media

Jøntvedt, Marius (2011): *Terra-saken – Norske kraftkommuner I finanskrisen*: Master-thesis, University of Oslo

Keen, Steve (2011): *Debunking Economics – Revised and Expanded Edition: The Naked Emperor Dethroned?*: Zed Books Ltd., London

Keynes, John Maynard (1937): “The General Theory of Employment”: *The Quarterly Journal of Economics:* Vol. 51, Nr. 2, p. 209-223

Knight, Frank H. (1964 [1921]): *Risk, Uncertainty and Profit*: Kelley, Sentry Press

Krippner, Greta R. (2005): ”The financialization of the American economy”: *Socio-economic Review*: Nr. 3, side 173-208

Løding, Tomas H. (2010): «Terrarisme» og finansiell alkymi – om den kommunale sektorens finansialisering: Master thesis, University of Bergen

Palley, Thomas (2007): ”Financialization: What it is and Why it Matters”: *Workingpaper Series*: Nr. 153: P.E.R.I, University of Massechusetts Amherst

Payne, Geoff and Malcolm Williams (2005): “Generalizations in Qualitative Research”: *Sociology*, Vol 39, No. 2, pp. 294-314

Maines, David R. (1982): “In Search of Mesostructure : Studies in the Negotiated Order”: *Urban Life*, Vol. 11, No. 3, pp. 267-279

Samuelson, Paul A. & William D. Nordhaus (2005): *Economics, Eighteenth Edition*: McGraw-Hill Companies Inc., New York

Sen, Amartya (1986): "Prediction and Economic Theory*”: Proceedings of the Royal Society of London. Series A, Mathematical and Physical Sciences*, Vol. 407, No. 1832, pp. 2-23

Shmueli, Gilat (2010): “To Explain or to Predict?”: *Statistical Science*: Vol. 25, Nr. 3, pp. 289-310

Stake, Robert E. (2000): “The Case Study Method in Social Enquiry”: in Gomm et. al. *Case Study Method – Key Issues, Key Texts*: SAGE Publications Ltd, London

Stockhammer, Engelbert (2008): ”Some Stylized Facts on the Finance – dominated Accumulation Regime”: *Competition & Change*: Vol. 12, Nr. 2, side 184-202

Strauss, Anselm (1993): *The Continual Permutations of Action*: Aldine Transaction, New York Thornton, Patricia H. og William Ocasio (2008): ”Institutional Logics”: I Royston Greenwood et. al. *Handbook of Organization Institutionalism*: Sage, London

Tjora, Aksel (2012): *Kvalitative Forskningsmetoder*: Gyldendal Akademisk, Oslo

Yefimov, Vladimir (2003): *On pragmatic institutional economics*: Paper for the EAEPE Conference, Nov. 2003, Maastricht