# 1 Introducing Economic Sociology

*Neil J. Smelser and Richard Swedberg*

As a designated field of inquiry, economic sociology is not much more than a century old, even though its intellectual roots are identifiable in older traditions of philosophical and social thought.[1] During the past quarter-century it has experienced an explosive growth, and now stands as one of the most conspicuous and vital subfields of its parent discipline. In this introduction we first define the field and distinguish it from mainstream economics. Next we trace the classical tradition of economic sociology, as found in the works of Marx, Weber, Durkheim, Schumpeter, Polanyi, and Parsons-Smelser. Finally, we cite some more recent developments and topics of concern in economic sociology. Throughout our discussion in this chapter we emphasize the importance of paying attention to economic interests *and* social relations.

## The Definition of Economic Sociology

Economic sociology—to use a term that Weber and Durkheim introduced[2]—can be defined simply as *the sociological perspective applied to economic phenomena*. A similar but more elaborate version is *the application of the frames of reference, variables, and explanatory models of sociology to that complex of activities which is concerned with the production, distribution, exchange, and consumption of scarce goods and services.*[3] One way to make this definition more specific is to indicate the variables, models, and so on, that the economic sociologist employs. When Smelser first put forth that definition (1963, 27–28; 1976, 37–38), he mentioned the sociological perspectives of personal interaction, groups, social structures (institutions), and social controls (among which sanctions, norms, and values are central). Given recent developments, we would add that perspectives of social networks, gender, and cultural contexts have also become central in economic sociology (e.g., Granovetter 1974, 1985a, 1995; Zelizer 1988). In addition, the international dimension of economic life has assumed greater salience among economic sociologists, at the same time as that dimension has come to penetrate the actual economies of the contemporary world (Makler, Martinelli, and Smelser 1982; Evans 1995).

## Mainstream Economics and Economic Sociology Compared

We now compare economic sociology and mainstream economics as a way of further elucidating the sociological perspective on the economy. This is a useful exercise only if qualified by the caution that both bodies of inquiry are much more complex than any brief comparison would suggest. Any general statement almost immediately yields an exception or qualification. To illustrate the caution on each side of the comparison:

1. In economics the classical and neoclassical traditions have enjoyed a certain dominance—hence the label *mainstream*—but the basic assumptions of those traditions have been modified and developed in many directions. In a classic statement, Knight ([1921] 1985, 76–79) stressed that neoclassical economics rested on the premises that actors have complete information and that information is free. Since that time economics has developed traditions of analysis based on assumptions of risk and uncertainty (for example, Sandmo 1971; Weber 2001) and information as a cost (for example, Stigler 1961; Lippmann and McCall 2001). In addition, numerous versions of economic rationality—for example, Simon's (1982) emphasis on "satisficing" and "bounded rationality"—have appeared. Still other variations on rational behavior have been developed in behavioral economics, which incorporates many psychological assumptions at variance with the mainstream (Mullainthan and Thaler 2001; Camerer, Loewenstein, and Rabin 2004). Looking in the direction of sociology, some economics now incorporates "norms" and "institutions," though with meanings different from those found in the sociological tradition.

2. Sociology lacks one dominant tradition. Various sociological approaches and schools differ from and compete with one another, and this circumstance has affected economic sociology. For example, Weber was skeptical about the notion of a social "system," whether applied to economy or society, while Parsons viewed society as a system and economy as one of its subsystems. Furthermore, even if all economic sociologists might accept the definition of economic sociology we have offered, they focus on different kinds of economic behavior. Some do so following Arrow's hint (1990, 140) that sociologists and economists ask different questions—about consumption, for example. Others, including what is called new economic sociology (see Granovetter 1990 for a programmatic statement), argue that sociology should concentrate directly on core economic institutions and problems.

These caveats recorded, a comparison between the central features of mainstream economics and economic sociology will clarify the specific nature of the sociological perspective. The following differences are most salient.

### *The Concept of the Actor*

To put the matter baldly, the analytic starting point of economics is the individual; the analytic starting points of economic sociology are typically groups, institutions, and society. In microeconomics, the individualistic approach finds its origins in early British utilitarianism and political economy. This orientation was elucidated systematically by the Austrian economist Carl Menger and given the label ***methodological individualism*** by Schumpeter (1908, 90; for a history of methodological individualism, see Udehn 2001). By contrast, in discussing the individual, the sociologist often focuses on the actor as a socially constructed entity, as "actor-in-interaction," or "actor-in-society." Often, moreover, sociologists take the group and the social-structural levels as phenomena sui generis, without reference to the individual actor.

Methodological individualism need not be logically incompatible with a sociological approach. In his theoretical chapter introductory to *Economy and Society,* Weber constructed his whole sociology on the basis of individual actions. But these actions are of interest to the sociologist only insofar as they are ***social*** actions or "take account of the behavior of other individuals and thereby are oriented in their course" (Weber [1922] 1978, 4). This formulation underscores a second difference between microeconomics and economic sociology: the former generally assumes that actors are not connected to one another; the latter assumes that actors are linked with and influence one another. We argue below that this difference has implications for how economies function.

### *The Concept of Economic Action*

In micoeconomics the actor is assumed to have a given and stable set of preferences and to choose that alternative line of action which maximizes utility. In economic theory, this way of acting constitutes economically rational action. Sociology, by contrast, encompasses several possible types of economic action. To illustrate from Weber again, economic action can be either rational, traditional, or affectual (Weber [1922] 1978, 24–26, 63–68). Except for residual mention of "habits" and "rules of thumb," economists give no place to traditional economic action (which, arguably, constitutes its most common form; see, however, Akerlof 1984; Schlicht 1998).

Another difference between microeconomics and economic sociology in this context concerns the scope of rational action. The economist traditionally identifies rational action with the efficient use of scarce resources. The sociologist's view is, once again, broader. Weber referred to the conventional maximization of utility, under conditions of scarcity, as ***formal rationality.*** In addition, however, he identified ***substantive rationality,*** which refers to allocation within the guidelines of other principles, such as communal loyalties or sacred values. A further difference lies in the fact that economists regard rationality as an ***assumption,*** whereas most sociologists regard it as a ***variable*** (see Stinchcombe 1986, 5–6). For one thing, the actions of some individuals or groups may be more rational than others (cf. Akerlof 1990). Along the same lines, sociologists tend to regard rationality as a phenomenon to be explained, not assumed. Weber dedicated much of his economic sociology to specifying the social conditions under which formal rationality is possible, and Parsons ([1940] 1954) argued that economic rationality was a system of norms—not a psychological universal—associated with specific developmental processes in the West.

Another difference emerges in the status of ***meaning*** in economic action. Economists tend to regard the meaning of economic action as derivable from the relation between given tastes, on the one hand, and the prices and quantities of goods and services, on the other. Weber's conceptualization has a different flavor: "the definition of economic action [in sociology] must . . . bring out the fact that all 'economic' processes and objects are characterized as such entirely by the *meaning* they have for human action" ([1922] 1978, 64). Meanings are historically constructed and must be investigated empirically, and are not simply to be derived from assumptions and external circumstances.

Finally, sociologists tend to give a broader and more salient place to the dimension of *power* in economic action. Weber ([1922] 1978, 67) insisted that "[it] is essential to include the criterion of power of control and disposal (*Verfügungsgewalt*) in the sociological concept of economic action," adding that this applies especially in the capitalist economy. By contrast, microeconomics has tended to regard economic action as an exchange among equals, and has thus had difficulty in incorporating the power dimension (Galbraith 1973, 1984). In the tradition of perfect competition, no buyer or seller has the power to influence price or output. It is also true that economists have a tradition of analyzing imperfect competition—in which power to control prices and output is the core ingredient—and that the idea of "market power" is used in labor and industrial economics (e.g., Scherer 1990). Still, the economic conception of power is typically narrower than the sociologist's notion of economic power, which includes its exercise in societal (especially political and class), as well as market, contexts. In a study of the power of the U.S. banking system, for example, Mintz and Schwartz (1985) analyze how banks and industries interlock, how certain banks cluster into groups, and how banks sometimes intervene in corporations in order to enforce economic decisions. More generally, sociologists have analyzed and debated the issue of the political implications of wealth inequality and the extent to which corporate leaders constitute a "power elite" in the whole of society (e.g., Mills 1956; Dahl 1958; Domhoff and Dye 1987; Keister 2000).

### *Constraints on Economic Action*

In mainstream economics, actions are constrained by tastes and by the scarcity of resources, including technology. Once these are known, it is in principle possible to predict the actor's behavior, since he or she will always try to maximize utility or profit. The active influence of other persons and groups, as well as the influence of institutional structures, is set to one side. Knight codified this in the following way: "Every member of society is to act as an individual only, in entire independence of all other persons" ([1921] 1985, 78). Sociologists take such influences directly into account in the analysis of economic action. Other actors facilitate, deflect, and constrain individuals' action in the market. For example, a friendship between a buyer and a seller may prevent the buyer from deserting the seller just because an item is sold at a lower price elsewhere (e.g., Dore 1983). Cultural meanings also affect choices that might otherwise be regarded as "rational." In the United States, for example, it is difficult to persuade people to buy cats and dogs for food, even though their meat is as nutritious and cheaper than other kinds (Sahlins 1976, 170–79). Moreover, a person's position in the social structure conditions his or her economic choices and activity. Stinchcombe (1975) evoked the principle that structural constraints influence career decisions in ways that run counter to considerations of economic payoff. For example, for a person who grows up in a high-crime neighborhood, the choice between making a career stealing and getting a job has often less to do with the comparative utility of these two alternatives than with the structure of peer groups and gangs in the neighborhood.

### *The Economy in Relation to Society*

The main foci for the mainstream economist are economic exchange, the market, and the economy. To a large extent, the remainder of society lies beyond where the operative variables of economic change really matter (see Quirk 1976, 2–4; Arrow 1990, 138–39). Economic assumptions typically presuppose stable societal parameters. For example, the long-standing assumption that economic analysis deals with peaceful and lawful transactions, not with force and fraud, involves important presuppositions about the legitimacy and the stability of the state and the legal system. In this way the societal parameters—which would surely affect the economic process if the political legal system were to disintegrate—are frozen by assumption, and thus are omitted from the analysis. In recent times economists have turned to the analysis of why institutions arise and persist, especially in the new institutional economics and game theory. They have varied the effects of institutional arrangements in various logical experiments (see, e.g., Eggertsson 1990; Furubotn and Richter 1997). Nevertheless, the contrast with economic sociology remains. When economists talk about institutions, norms, and the like, their vocabulary is identical to that of sociologists, but they often mean something quite different. It is still very common, for example, for economists to treat the economic arena as lacking norms and institutions. The latter only emerge when markets cannot be constructed or when traditional rational choice analysis fails. Economic sociology, on the other hand, has always regarded the economic process as an organic part of society. As a consequence, economic sociology has usually concentrated on three main lines of inquiry: (1) the sociological analysis of economic process; (2) the analysis of the connections and interactions between the economy and the rest of society; and (3) the study of changes in the institutional and cultural parameters that constitute the economy's societal context.

*Goals of Analysis*

As social scientists, both economists and sociologists try to explain phenomena encompassed by their respective subject matters. Within this common interest, however, different emphases emerge. Economists tend to be critical of descriptions—they condemn traditional institutional economics as too descriptive and atheoretical. Instead they stress the importance of prediction. Sociologists, by contrast, offer fewer formal predictions, and often find sensitive and telling descriptions both interesting in themselves and essential for explanation. As a result of these differences, sociologists often criticize economists for generating formal and abstract models and ignoring empirical data, and economists reproach sociologists for their "*post factum* sociological interpretations" (Merton 1968, 147–49). Though these differences have become part of the professional cultures of economists and sociologists, it should be noted that the last 10 years have seen a new interest for model building and game theory among sociologists, and a new interest in culture and use of empirical material among economists (e.g., Greif 1998, forthcoming; Swedberg 2001). It is also possible that the fields of economics and economic sociology may one day agree on some methodological compromise, say along the lines of "analytic narratives" (Bates et al. 1998).

*Models Employed*

The emphasis on prediction constitutes one reason why mainstream economists place such high value on expressing hypotheses and models in mathematical form. Though the advantages of this formal theorizing are readily apparent, economists themselves have at times complained that it tends to become an end in itself. In his presidential address to the American Economic Association in 1970, Wassily Leontief criticized his profession's "uncritical enthusiasm for mathematical formulation" (1971, 1). When economists do turn to empirical data, they tend to rely mainly on those generated for them by economic processes themselves (for example, aggregated market behavior, stock exchange transactions, and official economic statistics gathered by governmental agencies). Sample surveys are occasionally used, especially in consumer economics and in labor economics; archival data are seldom consulted, except by economic historians; and ethnographic work is virtually nonexistent. By contrast, sociologists rely heavily on a great variety of methods, including analyses of census data, independent survey analyses, participant observation and fieldwork, and the analysis of qualitative historical and comparative data.

*Intellectual Traditions*

Sociologists not only rely on different intellectual traditions that overlap only slightly, but they also regard those traditions differently. Evidently influenced by the natural science model of systematic accumulation of knowledge, economists have shown less interest than sociologists in study and exegesis of their classics (with notable exceptions such as Adam Smith and David Ricardo). Correspondingly, economics reveals a sharp distinction between current economic theory and the history of economic thought. In sociology these two facets blend more closely. The classics are very much alive, and are often required reading in theory courses.

Despite these differences, and despite the persisting gulf between the traditions of economics and economic sociology, some evidence of synthesis can be identified. Major figures such as Alfred Marshall, Vilfredo Pareto, and Talcott Parsons have attempted theoretical syntheses. Certain other figures, notably Weber and Schumpeter, have excited interest among both economists and sociologists. In addition, economists and sociologists find it profitable to collaborate in specific problem areas such as poverty and labor markets. Later in the chapter we will reraise the issue of intellectual articulation among economists and sociologists.

## The Tradition of Economic Sociology

There exists a large and rich tradition of economic sociology, which roughly begins around the turn of the twentieth century. This tradition has generated both important concepts and ideas and significant research results, which we now present and set in perspective. Economic sociology has peaked twice since its birth: in 1890–1920 with the classic theorists (who were all interested in and wrote on the economy), and today, from the early 1980s onwards. A small number of important works in economic sociology—by economists as well as sociologists—were also produced during the period in between. A major thread in the tradition of economic sociology is that investigation must *combine the analysis of economic interests with an analysis of social relations.*

### *Classical Economic Sociology and Its Predecessors*

The first use of the term *economic sociology* seems to have been in 1879, when it appears in a work by British economist W. Stanley Jevons ([1879] 1965). The term was taken over by the sociologists and appears, for example, in the works of Durkheim and Weber during the years 1890–1920 (*sociologie économique, Wirtschaftssoziologie*). It is also during these decades that classical economic sociology is born, as exemplified by such works as *The Division of Labor in Society* (1893) by Durkheim, *The Philosophy of Money* (1900) by Simmel, and *Economy and Society* (produced 1908–20) by Weber. These classics of economic sociology are remarkable for the following characteristics. First, Weber and others shared the sense that they were pioneers, building up a type of analysis that had not existed before. Second, they focused on the most fundamental questions of the field: What is the role of the economy in society? How does the sociological analysis of the economy differ from that of the economists? What is an economic action? To this should be added that the classical figures were preoccupied with understanding capitalism and its impact on society—"the great transformation" that it had brought about.

In hindsight it is clear that several works published before the 1890–1920 period in one way or another prefigure some of the insights of economic sociology. Important reflections on, for example, the role of trade can be found in *The Spirit of the Laws* by Montesquieu, as well as a pioneer comparative analysis of the role of various economic phenomena in republics, monarchies, and despotic states (Montesquieu [1748] 1989). The role of labor in society is emphasized in the work of Saint-Simon (1760–1825), who also helped to popularize the term *industrialism* (cf. Saint-Simon 1964). That the work of Alexis de Tocqueville (1805–1859) is full of sharp, sociological observations is something that most sociologists would agree on. That he also made contributions to economic sociology is, however, less known (Tocqueville [1835–40] 1945, [1856] 1955; cf. Swedberg 2003, 6–8). Of these various precursors we will concentrate only on Karl Marx, a towering figure in nineteenth-century thought, even though he was active before the birth of modern sociology.

#### *Karl Marx*

Karl Marx (1818–1883) was obsessed with the role of the economy in society and developed a theory according to which the economy determined society's general evolution. What drives people in their everyday lives, Marx also argued, are material interests, and these also determine the structures and processes in society. While Marx wanted to develop a strictly scientific approach to society, his ideas were equally infused by his political desire to change the world (e.g., [1843] 1978, 145). The end result was what we know as "Marxism"—a mixture of social science and political statements, welded into a single doctrine.

For a variety of reasons much of Marxism is erroneous or not relevant to economic sociology. It is far too tendentious and dogmatic to be adopted as a whole. The task that confronts economic sociology today is to extract those aspects of Marxism that are useful. In doing so, it is useful to follow the suggestion of Schumpeter, and distinguish between Marx as a sociologist, Marx as an economist, and Marx as a revolutionary (Schumpeter [1942] 1994, 1–58). We now turn to a preliminary effort to pull out the relevant ingredients for economic sociology.

Marx's point of departure is labor and production. People have to work in order to live, and this fact is universal (Marx [1867] 1906, 50). Material interests are correspondingly universal. Labor is social rather than individual in nature, since people have to cooperate in order to produce. Marx severely criticized economists for their use of the isolated individual; and he himself sometimes spoke of "social individuals" (e.g., [1857–58] 1973, 84–85). The most important interests are also of a collective nature—what Marx calls "class interests." These interests will, however, only be effective if people become aware that they belong to a certain class ("class for itself," as opposed to "class in itself"; Marx [1852] 1950, 109).

Marx severely criticized Adam Smith's idea that individual interests merge and further the general interest of society ("the invisible hand"). Rather, according to Marx, classes typically oppress and fight each other with such ferocity that history is as if written with "letters of blood and fire" ([1867] 1906, 786). Bourgeois society is no exception on this score since it encourages "the most violent, mean and malignant passions of the human heart, the Furies of private interest" ([1867] 1906, 15). In various works Marx traced the history of the class struggle, from early times into the future. In a famous formulation from the 1850s, Marx states that at a certain stage the "relations of production" enter into conflict with "the forces of production," with revolution and passage to a new "mode of production" as a result ([1859] 1970, 21). In *Capital* Marx writes that he has laid bare "the economic law of motion of modern society" and that this law works "with iron necessity towards inevitable results" of revolutionary change ([1867] 1906, 13–14).

A positive feature of Marx's approach is his insight into the extent to which people have been willing to fight for their material interests throughout history. He also contributed to understanding how large groups of people, with similar economic interests, under certain circumstances can unite and realize their interests. On the negative side, Marx grossly underestimated the role in economic life of interests other than the economic ones. His notion that economic interests in the last hand always determine the rest of society is also impossible to defend; "social structures, types and attitudes are coins that do not readily melt," to cite a famous quote from Schumpeter ([1942] 1994, 12).

### *Max Weber*

Among the classics in economic sociology Max Weber (1864–1920) occupies a unique place. He proceeded furthest toward developing a distinct economic sociology, laying its theoretical foundation and carrying out empirical studies (Swedberg 1998). The fact that he had worked as a professor of economics was no doubt helpful in these efforts to build bridges between economics and sociology. Also helpful was the major research task that occupied Weber throughout his career, which was economic as well as social in nature: to understand the origin of modern capitalism. Weber drew heavily on the theoretical work on interests of his time and extended that line of work by making it more sociological.

Weber's academic training was broad in nature, and its main emphasis was on law, with the history of law as his specialty. His two dissertations—one on medieval trading corporations (lex mercatoria) and the other on the sale of land in early Rome—were relevant topics for understanding the rise of capitalism: the emergence of private property in land and of property in the firm (as opposed to individual property). Those works, in combination with a commissioned study of rural workers, earned him a position in economics ("political economy and finance") in the early 1890s. In this capacity he taught economics but published mainly in economic history and in policy questions. Weber wrote, for example, voluminously on the new stock exchange legislation.

Toward the end of the 1890s Weber fell ill, and for the next 20 years he worked as a private scholar. In these years he produced his most celebrated study, *The Protestant Ethic and the Spirit of Capitalism* (1904–5), as well as studies of the economic ethics of the world religions. In 1908 Weber accepted a position as chief editor of a giant handbook of economics. From the very beginning Weber set aside the topic of "economy and society" for himself. The work that today is known as *Economy and Society* consists of a mixture of material that Weber had approved for publication and of manuscripts found after his death (see, e.g., Mommsen 2000). In 1919–20 Weber also taught a course in economic history, which, pieced together a few years later on the basis of students' notes, was published posthumously as *General Economic History*. Though primarily a work in economic history, it contains much interesting material for the economic sociologist.

Much of what Weber wrote in economic sociology can be found in *Collected Essays in the Sociology of Religion* (1920–21) and *Economy and Society* (1922). The former contains a revised version *The Protestant Ethic*, "The Protestant Sects and the Spirit of Capitalism" (1904–5; revised 1920) and voluminous writings on the economic ethics of the Chinese, Indian, and Judaic world religions and a few other texts (for the latter see Weber [1920] 1958, [1915] 1946a, [1915] 1946b). According to Weber, the material in *Collected Essays* concerns mainly the sociology of religion but is also of interest to economic sociology.

The most influential study is *The Protestant Ethic*. This work is centered around Weber's general preoccupation with the articulation of ideal and material interests and ideas. The believer in ascetic Protestantism is driven by a desire to be saved (a religious interest) and acts accordingly. For various paradoxical reasons the individual eventually comes to believe that secular work, carried out in a methodical manner, represents a means to salvation—and when this happens, religious interest is combined with economic interest. The result of this combination is a release of a tremendous force, which shattered the traditional and antieconomic hold of religion over people and introduced a mentality favorable to capitalist activity. The thesis in *The Protestant Ethic* has led to an enormous debate, with many scholars—probably a majority—arguing against Weber (for an introduction to this debate, see especially Marshall 1982).

While he was writing *The Protestant Ethic* Weber published an essay, " 'Objectivity' in Social Science and Social Policy," that summarized his theoretical views on economic sociology. In this work he argued that the science of economics should be broad and umbrella-like (*Sozialökonomik;* Weber [1904] 1949, 64–65). It should include not only economic theory but also economic history and economic sociology. Weber also proposes that economic analysis should cover not only "economic phenomena" but also "economically relevant phenomena" and "economically conditioned phenomena" (64–65). Economic phenomena consist of economic norms and institutions, often deliberately created for economic ends—for example, banks and stock exchanges. Economically relevant phenomena are noneconomic phenomena that under certain circumstances may have an impact on economic phenomena, as in the case of ascetic Protestantism. Economically conditioned phenomena are those that to some extent are influenced by economic phenomena. The type of religion that a group feels affinity for is, for example, partly dependent on the kind of work that its members do. While economic theory can only handle pure economic phenomena (in their rational version), economic history and economic sociology can deal with all three categories of phenomena.

A somewhat different approach, both to economic sociology and to interests, can be found in *Economy and Society.* The first chapter of this work contains a general sociological analysis. Two concepts are important building blocks: "social action" and "order" (*Ordnung*). In the former, "action," defined as behavior invested with meaning, is qualified as "social" if it is oriented to some other actor. An "order" is roughly equivalent to an institution, and it comes into being when social actions are repeated over a period, regarded as objective, and surrounded by various sanctions. Economists study pure economic action, which is action exclusively driven by economic interests (or "desire for utilities," in Weber's formulation; [1922] 1978, 63). Economic sociologists, however, study *social* economic action, which is driven not only by economic interest but also by tradition and emotions; furthermore, it is always oriented to some actor(s).

If one disregards single actions, Weber says, and instead focuses on empirical uniformities, it is possible to distinguish three different types: those inspired by "convention," by "custom" (including "habit"), and by "interest" ([1922] 1978, 29–36). Most uniform types of action presumably consist of a mixture of all three. Actions that are "determined by interest" are defined by Weber as instrumental in nature and oriented to identical expectations. An example would be the modern market, where each actor is instrumentally rational and counts on everybody else to be so as well.

Weber emphasized that interests are always subjectively perceived; no "objective" interests exist beyond the individual actor. In a typical sentence Weber speaks of "[the] interests of the actors as they themselves are aware of them" ([1922] 1978, 30). He also notes that when several individuals behave in an instrumental manner in relation to their individual interests, the typical result is collective patterns of behavior that are considerably more stable than those driven by norms imposed by an authority. It is, for example, very difficult to make people do something economic that goes against the individual's interest.

A sketch of Weber's economic sociology in *Economy and Society* yields the following main points. Economic actions of two actors who are oriented to one another constitute an economic relationship. These relationships can take various expressions, including conflict, competition, and power. If two or more actors are held together by a sense of belonging, their relationship is "communal"; and if they are held together by interest, "associative" (Weber [1922] 1978, 38–43). Economic relationships (as all social relationships) can also be open or closed. Property represents a special form of closed economic relationship.

Economic organizations constitute another important form of closed economic relationships. Some of these organizations are purely economic, while others have some subordinate economic goals or have as their main task the regulation of economic affairs. A trade union is an example. Weber attaches great importance to the role in capitalism of the firm, which he sees as the locus of entrepreneurial activity and as a revolutionary force.

A market, like many other economic phenomena, is centered around a conflict of interests—in this case between sellers and buyers (Weber [1922] 1978, 635–40). A market involves both exchange and competition. Competitors must first fight out who will be the final seller and the final buyer ("competition struggle"); and only when this struggle has been settled is the scene set for the exchange itself ("exchange struggle"). Only rational capitalism is centered around the modern type of market (Weber [1922] 1978, 164–66). In so-called political capitalism the key to profit making is rather the state or the political power that grants some favor, supplies protection, or the like. Traditional commercial capitalism consists of small-scale trading, in money or merchandise. Rational capitalism has emerged only in the West.

*Émile Durkheim*

As compared to Weber, Émile Durkheim (1858–1917) knew less economics, wrote less about economic topics, and in general made less of a contribution to economic sociology (e.g., Steiner 2004). While none of his major studies can be termed a work in economic sociology, all of them nonetheless touch on economic topics (see also Durkheim [1950] 1983). Durkheim also strongly supported the project of developing a *sociologie économique* by encouraging some of his students to specialize in this area and by routinely including a section on economic sociology in his journal *L'année sociologique*. At one point he gave the following definition of economic sociology:

> Finally there are the economic institutions: institutions relating to the production of wealth (serfdom, tenant farming, corporate organization, production in factories, in mills, at home, and so on), institutions relating to exchange (commercial organization, markets, stock exchanges, and so on), institutions relating to distribution (rent, interest, salaries, and so on). They form the subject matter of *economic sociology*. (Durkheim [1909] 1978b, 80)

Durkheim's first major work, *The Division of Labor in Society* (1893), has most direct relevance for economic sociology. Its core consists of the argument that social structure changes as society develops from its undifferentiated state, in primordial times, to a stage characterized by a complex division of labor, in modern times. Economists, Durkheim notes, view the division of labor exclusively as an economic phenomenon, and its gains in terms of efficiency. What he added was a sociological dimension of the division of labor—how it helps to integrate society by coordinating specialized activities.

As part of society's evolution to a more advanced division of labor, the legal system changes. From being predominantly repressive in nature, and having its center in penal law, it now becomes restitutive and has its center in contractual law. In discussing the contract, Durkheim also described as an illusion the belief, held by Herbert Spencer, that a society can function if all individuals simply follow their private interests and contract accordingly (Durkheim [1893] 1984, 152). Spencer also misunderstood the very nature of the contractual relationship. A contract does not work in situations where self-interest rules supreme, but only where there is a moral or regulative element. "The contract is not sufficient by itself, but is only possible because of the regulation of contracts, which is social in origin" (Durkheim [1893] 1984, 162).

A major concern in *The Division of Labor in Society* is that the recent economic advances in France may destroy society by letting loose individual greed to erode its moral fiber. This problematic is often cast in terms of the private versus the general interest, as when Durkheim notes that "subordination of the particular to the general interest is the very well-spring of all moral activity" ([1893] 1984, xliii). Unless the state or some other agency that articulates the general interest steps in to regulate economic life, the result will be "economic anomie," a topic that Durkheim discusses in *Suicide* ([1897] 1951, 246ff., 259). People need rules and norms in their economic life, and they react negatively to anarchic situations.

In many of Durkheim's works, one finds a sharp critique of economists; and it was Durkheim's conviction in general that if economics was ever to become scientific, it would have to become a branch of sociology. He attacked the idea of *homo economicus* on the ground that it is impossible to separate out the economic element and disregard the rest of social life ([1888] 1978a, 49–50). The point is not that economists used an analytical or abstract approach, Durkheim emphasized, but that they had selected the wrong abstractions (1887, 39). Durkheim also attacked the nonempirical tendency of economics and the idea that one can figure out how the economy works through "a simple logical analysis" ([1895] 1964, 24). Durkheim referred to this as "the ideological tendency of economics" ([1895] 1964, 25).

Durkheim's recipe for a harmonious industrial society is as follows: each industry should be organized into a number of corporations, in which the individuals will thrive because of the solidarity and warmth that comes from being a member of a group ([1893] 1984, lii). He was well aware of the rule that interest plays in economic life, and in *The*

*Elementary Forms of Religious Life* he stresses that "the principal incentive to economic activity has always been the private interest" ([1912] 1965, 390). This does not mean that economic life is purely self-interested and devoid of morality: "We remain [in our economic affairs] in relation with others; the habits, ideas and tendencies which education has impressed upon us and which ordinarily preside over our relations can never be totally absent" (390). But even if this is the case, the social element has another source other than the economy and will eventually be worn down if not renewed.

### *Georg Simmel*

Simmel's works typically lack references to economics as such. Simmel (1858–1918), like Durkheim, usually viewed economic phenomena within some larger, noneconomic setting. Nonetheless, his work still has relevance for economic sociology.

Much of Simmel's most important study, *Soziologie* (1908), focuses on the analysis of interests. He suggested what a sociological interest analysis should look like and why it is indispensable to sociology. Two of his general propositions are that interests drive people to form social relations, and that it is only through these social relations that interests can be expressed:

> Sociation is the form (realized in innumerable different ways) in which individuals grow together into a unity and within which their interests are realized. And it is on the basis of their interests—sensuous or ideal, momentary or lasting, conscious or unconscious, causal or teleological—that individuals form such units. (Simmel [1908] 1971, 24)

Another key proposition is that economic interests, like other interests, can take a number of different social expressions (26).

*Soziologie* also contains a number of suggestive analyses of economic phenomena, among them competition. In a chapter on the role of the number of actors in social life, Simmel suggests that competition can take the form of *tertius gaudens* ("the third who benefits"). In this situation, which involves three actors, actor A turns to advantage the fact that actors B and C are competing for A's favor—to buy something, to sell something, or the like. Competition is consequently not seen as something that only concerns the competitors (actors B and C); it is in addition related to actor A, the target of the competition. Simmel also distinguishes competition from conflict. While a conflict typically means a confrontation between two actors, competition rather implies parallel efforts, a circumstance in which society can benefit from the actions of both the actors. Instead of destroying your opponent, as in a conflict, in competition you try to do what your competitor does—but better.

*Philosophy of Money* (1900), Simmel's second major sociological work, has always enjoyed a mixed reputation. Durkheim disapproved of it for its mix of genres, and according to Weber economists detested Simmel's way of dealing with economic topics (e.g., Frisby 1978; Durkheim ([1902] 1980; Weber 1972). Simmel does mix philosophical reflections with sociological observations in an idiosyncratic manner, but *Philosophy of Money* has nonetheless much to give if it is read in its own frame. Simmel's main point is that money and modernity belong together; in today's society there does not exist one exclusive set of dominant values but rather a sense that everything is relative (cf. Poggi 1993). Simmel's work also contains a myriad of insightful sociological reflections on the connections of money with authority, emotions, trust, and other phenomena. The value of money, Simmel observed, typically extends only as far as the authority that guarantees it ("the economic circle"; [1907] 1978, 179ff.). Money is also surrounded by various "economically important sentiments," such as "hope and fear, desire and anxiety" ([1907] 1978, 171). And without trust, Simmel argues, society could simply not exist; and "in the same way, money transactions would collapse without trust" (179). In relation to money, trust consists of two elements. First, because something has happened before—for example, that people accept a certain type of money—it is likely to be repeated. Another part of trust, which has no basis in experience and which can be seen as a nonrational belief, Simmel calls "quasi-religious faith," noting that it is present not only in money but also in credit.

## *After the Classics*

Despite its foundation in the classics, economic sociology declined after 1920 and would not return to full vigor before the 1980s. Exactly why this happened is still not clear. One reason is probably that neither Weber nor Simmel had any disciples. Durkheim did, however, and the study of Marcel Mauss, *The Gift* (1925), should be singled out. It rests on the argument that a gift typically implies an obligation to reciprocate and should not be mistaken for a one-way act of generosity. *The Gift* also contains a number of interesting observations on credit, the concept of interest, and the emergence of *homo economicus*. Evenually, however, Durkheimian economic sociology declined.

Despite the slowing in economic sociology during the years 1920–80, there were several noteworthy developments, especially the theoretical works of Joseph Schumpeter, Karl Polanyi, and Talcott Parsons (for contributions by other sociologists during this period, see Swedberg 1987, 42–62). All three produced their most important works while in the United States, but had roots in European social thought.

*Joseph Schumpeter*

We preface our notes on Schumpeter (1883–1950), an economist, by noting some contributions by economists more generally to economic sociology. One example is Alfred Marshall (1842–1924), whose analyses of such topics as industries, markets, and preference formation often are profoundly sociological in nature (Marshall [1920] 1961, 1919; cf. Aspers 1999). Vilfredo Pareto (1848–1923) is famous for his sociological analyses of rentiers versus speculators, business cycles, and much more (Pareto [1916] 1963; cf. Aspers 2001a). The work of Thorstein Veblen (1857–1929) sometimes appeared in sociological journals, and his analyses include such topics as consumer behavior ("conspicuous consumption"), why industrialization in England slowed down ("the penalty of taking the lead"), and the shortcomings of neoclassical economics (Veblen [1899] 1973, [1915] 1966, [1919] 1990; cf. Tillman 1992). Final mention should also be made of Werner Sombart (1863–1941), who wrote on the history of capitalism, on "the economic temper of our time," and on the need for a "*verstehende* economics" (1902–27, 1930, 1935).

The contributions of Schumpeter are especially noteworthy (see, e.g., Swedberg 1991b). His life spanned two periods in modern economics—the period around the turn of the century, when modern economics was born, and the period of a few decades later when it was mathematized and secured its place as "mainstream." Schumpeter similarly spanned two distinct periods in sociology—from Max Weber in the first decade of the 20th century through Talcott Parsons in the 1930s and 1940s. Schumpeter is also unique among economists for trying to create a place for economic sociology next to economic theory. In this last effort Schumpeter was clearly inspired by Weber and, like the latter, referred to this type of broad economics as *Sozialökonomik*, or "social economics." Schumpeter defines economic sociology as the study of institutions, within which economic behavior takes place (e.g., 1954, 21).

Schumpeter produced three studies in sociology. The first is an article on social classes that is of interest because of his distinction between economists' and sociologists' use of the concept of class. While for the former, he argues, class is a formal category, for the latter it refers to a living reality. The second study is an article about the nature of imperialism that can be compared to the equivalent theories of Hobson, Lenin, and others. Schumpeter's basic idea is that imperialism is precapitalistic and deeply irrational and emotional in nature—essentially an expression for warrior nations of their need to constantly conquer new areas or fall back and lose their power. The third study is perhaps the most interesting one from the viewpoint of contemporary economic sociology, "The Crisis of the Tax State" (1918). Schumpeter characterizes this article as a study in "fiscal sociology" (*Finanzsoziologie*); its main thesis is that the finances of a state represent a privileged position from which to approach the behavior of the state. As a motto Schumpeter cites the famous line of Rudolf Goldscheid: "The budget is the skeleton of the state stripped of all misleading ideology (Schumpeter [1918] 1991, 100).

Schumpeter did not regard *Capitalism, Socialism, and Democracy* (1942) as a work in sociology, but its main thesis is nonetheless sociological in nature: the motor of capitalism is intact but its institutional structure is weak and damaged, making it likely that socialism will soon replace it. On this point Schumpeter was evidently wrong. His analysis of the forces that are undermining capitalism may seem idiosyncratic at times. Nonetheless, Schumpeter should be given credit for suggesting that the behavior of intellectuals, the structure of the modern family, and so on, do affect capitalism. Of special importance are his insights about economic change or, as Schumpeter phrased it with his usual stylistic flair, "creative destruction."

Entrepreneurship is at the heart of Schumpeter's treatment of economic change (1912, chap. 2; 1934, chap. 2; 2003). He himself saw his theory of entrepreneurship as falling in economic theory, more precisely as an attempt to create a new and more dynamic type of economic theory. Nonetheless, many of his ideas on entrepreneurship are sociological in nature. His central idea—that entrepreneurship consists of an attempt to put together a new combination of already existing elements—can be read sociologically, as can his idea that the main enemy of the entrepreneur is the people who resist innovations.

*Karl Polanyi*

Trained in law, Polanyi (1886–1964) later taught himself Austrian economics as well as economic history and economic anthropology. Though he was interdisciplinary in approach, his main specialty was economic history, with an emphasis on nineteenth-century England and preindustrial economies.

Polanyi's most famous work is *The Great Transformation* (1944), conceived and written during World War II (e.g., Block 2001, 2003). Its main thesis is that a revolutionary attempt was made in nineteenth-century England to introduce a totally new, market-centered type of society. No outside authority was needed; everything was automatically to be decided by the market ("the self-regulating market"). In the 1840s and 1850s a series of laws was introduced to turn this project into reality, turning land and labor into common commodities. Even the value of money was taken away from the political authorities and handed over to the market. According to Polanyi, this type of proceeding could only lead to a catastrophe. When the negative effects of the market reforms became obvious in the second half of the nineteenth century, Polanyi continues, countermeasures were set in to rectify them ("the double movement"). These measures, however, only further unbalanced society; and developments such as fascism in the twentieth century were the ultimate results of the ill-fated attempt in mid-nineteenth-century England to turn everything over to the market.

Polanyi also cast his analysis in terms of interests and argued that in all societies, before the nineteenth century, the general interests of groups and societies ("social interests") had been more important than the money interest of the individual ("economic interest"). "An all too narrow conception of interest," Polanyi emphasizes, "must in effect lead to a warped vision of social and political history, and no purely monetary definition of interest can leave room for that vital need for social protection" ([1944] 1957, 154).

The theoretical part of *The Great Transformation* is centered around Polanyi's concepts of "embeddedness" and "principles of behavior" (later changed to "forms of integration"). The fullest elaboration of this line of work is to be found in *Trade and Market in the Early Empires* (Polanyi, Arensberg, and Pearson [1957] 1971), and especially in Polanyi's essay "The Economy as Instituted Process" ([1957] 1971). Polanyi criticized economic theory for being essentially "formal"—a kind of logic focused on choice, the means-end relationship, and the alleged scarcity of things that people want. There is also "the economistic fallacy," or the tendency in economics to equate the economy with its market form ([1944] 1957, 270). To the formal concept of economics Polanyi counterposes a "substantive" concept, grounded in reality and not in logic. "The substantive meaning of economic derives from man's dependence for his living upon nature and his fellows" ([1957] 1971b, 243). While the notion of economic interest is directly linked to "the livelihood of man" in substantive economics, it is only an artificial construction in formal economics (Polanyi 1977).

The most famous concept associated with Polanyi's work is "embeddedness," which, however, he used in a way different from its contemporary use. According to the current use, an economic action is in principle always "embedded" in some form of social structure. According to Polanyi, economic actions become destructive when they are "disembedded," or not governed by social or noneconomic authorities. The real problem with capitalism is that instead of society deciding about the economy, it is the economy that decides about society: "instead of the economic system being embedded in social relationships, these relationships were now embedded in the economic system" ([1947] 1982, 70).

Another set of conceptual tools for economic sociology is Polanyi's "forms of integration." His general argument is that rational self-interest is too unstable to constitute the foundation for society; an economy must be able to provide people with material sustenance on a continuous basis. There are three forms of integration, or ways to stabilize the economy and provide it with unity. These are *reciprocity,* which takes place within symmetrical groups, such as families, kinship groups, and neighborhoods; *redistribution,* in which goods are allocated from a center in the community, such as the state; and *exchange*, in which goods are distributed via price-making markets (Polanyi [1957] 1971b). In each economy, Polanyi specifies, there is usually a mixture of these three forms. One of them can be dominant, while the others are subordinate.

*Talcott Parsons*

Talcott Parsons (1902–79) was educated as an economist in the institutionalist tradition and taught economics for several years before he switched to sociology in the 1930s. At this time he developed the notion that while economics deals with the means-end relationship of social action, sociology deals with its values ("the analytical factor view"). In the 1950s Parsons recast his ideas on the relationship of economics to sociology, in a work coauthored with Neil Smelser, *Economy and Society* (1956). This work constitutes Parsons's major contribution to economic sociology, but both before and after its publication Parsons produced a number of studies relevant to economic sociology (Camic 1987; Swedberg 1991a).

In *The Structure of Social Action* (1937) Parsons launched a forceful attack on utilitarian social thought, including the idea that interests represent an Archimedean point from which to analyze society. Interest theorists, Parsons notes, cannot handle the Hobbesian problem of order; they try to get out of this dilemma by assuming that everybody's interests harmonize (what Elie Halévy referred to as "the natural identity of interests"; Parsons [1937] 1968, 96–97). What is not understood by the utilitarians is that norms (embodying values) are necessary to integrate society and provide order. Interests are always part of society, but a social order cannot be built on them (405).

In *Economy and Society* (1956) Parsons and Smelser suggested that both sociology and economics can be understood as part of the general theory of social systems. The economy is a subsystem, which interchanges with the other three subsystems (the polity, the integrative subsystem, and the cultural-motivational subsystem). The concept of a subsystem is reminiscent of Weber's notion of sphere, but while the latter refers only to values, the economic subsystem also has an adaptive function as well as a distinct institutional structure. It may finally be mentioned that *Economy and Society* got a negative reception by economists and failed to ignite an interest in economic sociology among sociologists. Smelser's attempt to consolidate economic sociology in the next decade helped fix economic sociology as a subfield in the minds of scholars and in the curricula of colleges and universities, but did not spawn distinct new lines of research (see especially Smelser 1963, 1965, 1976).

## The Current Revival of Economic Sociology (1980s–)

Despite the efforts of Parsons and Smelser in the mid-1950s and the 1960s to revive economic sociology, it attracted little attention, and by the 1970s the field was somewhat stagnant. A number of works inspired in one way or another by the Marxist tradition—and its general revival in the late 1960s and the early 1970s—made their appearance in this period. Among these were Marxist analyses themselves (e.g., Gorz 1977), dependency theory (Frank 1969; Cardoso and Faletto 1969), world systems theory (Wallerstein 1974), and neo-Marxist analyses of the workplace (Braverman 1974; Burawoy 1979).

In the early 1980s, a few studies suggested a new stirring of interest (e.g., White 1981; Stinchcombe 1983; Baker 1984; Coleman 1985). And with the publication in 1985 of a theoretical essay by Mark Granovetter—"Economic Action and Social Structure: The Problem of Embeddedness"—the new ideas came into focus. The same year Granovetter spoke of "new economic sociology"—yielding a tangible name.

Why economic sociology, after decades of neglect, suddenly would come alive again in the mid-1980s is not clear. Several factors may have played a role, inside and outside sociology. By the early 1980s, with the coming to power of Reagan and Thatcher, a new neoliberal ideology had become popular, which set the economy—and the economists—at the very center of things. By the mid-1980s economists had also started to redraw the traditional boundary separating economics and sociology, and to make forays into areas that sociologists by tradition saw as their own territory. It is also during this period that Gary Becker, Oliver Williamson, and others came to the attention of sociologists. Likewise, sociologists began to reciprocate by taking on economic topics.

To some extent this version of what happened resembles Granovetter's version in 1985. He associated "old economic sociology" with the economy and society perspective of Parsons, Smelser, and Wilbert E. Moore, and with industrial sociology—two approaches, he said, that had been full of life in the 1960s but then "suddenly died out" (Granovetter 1985b, 3). Parsons's attempt to negotiate a truce between economics and sociology had also been replaced by a more militant tone. According to Granovetter, new economic sociology "attacks neoclassical arguments in fundamental ways," and it wants to take on key economic topics, rather than focus on peripheral ones.

Since the mid-1980s new economic sociology has carved out a position for itself in U.S. sociology. It is well represented at a number of universities. Courses are routinely offered in sociology departments. A section in the American Sociological Association has been formed. A number of high-quality monographs have been produced, such as *The Transformation of Corporate Control* (1990) by Neil Fligstein, *Structural Holes* (1992) by Ronald Burt, and *The Social Meaning of Money* (1994) by Viviana Zelizer. These three works draw on the insights of organization theory, networks theory, and cultural sociology, respectively. The subfield has also seen the appearance of several anthologies, readers, a huge handbook, a textbook, and a general introduction to the field (Zukin and DiMaggio 1990; Guillén et al. 2002; Dobbin 2003; Granovetter and Swedberg 1992, 2001; Biggart 2002; Smelser and Swedberg 1994; Carruthers and Babb 2000; Swedberg 2003).

### *Granovetter on Embeddedness*

While several attempts have been made to present general theories and paradigms in new economic sociology, the perspective that continues to command most conspicuous attention is Granovetter's theory of embeddedness. Since the mid-1980s Granovetter has added to his argument and refined it in various writings that are related to his two major projects since the mid-1980s: a general theoretical work in economic sociology entitled *Society and Economy: The Social Construction of Economic Institutions,* and a study (together with Patrick McGuire [1998]) of the emergence of the electrical utility industry in the United States.

The most important place in Granovetter's work where embeddedness is discussed is his 1985 article, which operated as a catalyst in the emergence of new economic sociology and which is probably the most cited article in economic sociology since the 1980s. His own definition of embeddedness is quite general and states that economic actions are "embedded in concrete, ongoing systems of social relations" (Granovetter 1985a, 487). Networks are central to this concept of embeddedness (491). An important distinction needs also to be drawn, according to Granovetter, between an actor's immediate connections and the more distant ones—what Granovetter elsewhere calls "relational embeddedness" and "structural embeddedness" (1990, 98–100; 1992, 34–37).

The most important addition to the 1985 article has been connecting the concept of embeddedness to a theory of institutions. Drawing on Berger and Luckmann (1967) Granovetter argues that institutions are "congealed networks" (1992, 7). Interaction between people acquires, after some time, an objective quality that makes people take it for granted. Economic institutions are characterized by "the mobilization of resources for collective action" (Granovetter 1992, 6).

Granovetter's argument on embeddedness has been widely discussed and sometimes criticized. An attempt to elaborate it can be found in the work of Brian Uzzi, who argues that a firm can be "underembedded" as well as "overembedded," and that a firm is most successful when it balances between arm's-length market ties and more solid links (Uzzi 1997). Several other critics have pointed out that Granovetter omits consideration of many aspects of economic action, including a link to the macroeconomic level, culture, and politics (e.g. Zukin and DiMaggio 1990; Zelizer 1988; Nee and Ingram 1998). Zukin and DiMaggio suggest that to remedy this lacuna, one should not only talk of "structural embeddedness," but also of "political," "cultural," and "cognitive embeddedness."

### *Contributions Using Structural Sociology and Networks*

Structural sociology has played a crucial role in promoting and adding to network analysis in sociology, including economic socioloy. This approach is centered around the proposition that the relations of persons and positions are crucial to the social process (Mullins and Mullins 1973, 251–69). Its practitioners often use a mathematical approach, focus on social mechanisms, and avoid regression analysis and similar quantitative methods. Its most prominent scholars are Harrison White and his students, such as Mark Granovetter, Scott Boorman, and Michael Schwartz. White's work in economic sociology has concerned networks, vacancy chains, and markets. He begins his analysis from people's physical dependence on their surroundings but notes that interests are soon embedded in social relations (White 1970, 1981, 1992, 24).

Network studies have been at the center of the new economic sociology. Many studies have been made of the links between corporations and, more generally, within so-called industrial districts (Ebers 1997; Saxenian 1994). Burt (1992) analyzes competition by drawing on Simmel's idea that you are in a good position if you can play out two competitors against one another (*tertius gaudens*, or "the third who benefits"). Brian Uzzi's study of embeddedness from 1997 also makes use of networks, as does Granovetter's essay (1994) on business groups. A multitude of other fine studies could be mentioned (see, e.g., Powell and Lisa-Doerr 1994, this volume). One criticism of the network approach is that it has ignored the role in economic life of politics and culture (Fligstein 1996, 657).

### *Contributions Using Organization Theory*

New economic sociology has been very successful in using organization theory to explore a number of important topics, such as the structure of firms and the links between corporations and their environments. One fine example is Nicole Woolsey Biggart's *Charismatic Capitalism* (1989), which deals with a very special type of organization: direct selling organizations, such as Tupperware and Mary Kay Cosmetics. Three theoretical approaches in organization theory have been especially important for the development of new economic sociology: resource dependency, population ecology, and new institutionalism.

Resource dependency, as its name suggests, rests on the postulate that organizations are dependent on their environments to survive. An example of this approach is work by Burt (1983), who suggests that three important factors that affect profits are the number of suppliers, competitors, and customers. The more "structural autonomy" a firm has, the higher its profits; that is, a firm with many suppliers, few competitors, and many customers will be in a position to buy cheaply and sell expensively.

In population ecology the main driving force of organizations is survival. It has been shown that the diffusion of an organizational form typically passes through several distinct stages: a very slow beginning, then explosive growth, and finally a slow settling down (e.g., Hannan and Freeman 1989). Individual studies of this process in various industries, such as railroads, banks, and telephone companies, fill a void in economic sociology (e.g., Carroll and Hannan 1995).

New institutionalism is strongly influenced by the ideas of John Meyer and is centered around what may be called cultural and cognitive aspects of organizations (see Powell and DiMaggio 1991). Meyer argues that organizations seem much more rational than they actually are, and that specific models for organizing activities may be applied widely—including to circumstances they do not fit. It has been argued that the strength of new institutionalism is its exploration of "factors that make actors unlikely to recognize or to act on their interests" and its focus on "circumstances that cause actors who do recognize and try to act on their interests to be unable to do so" (DiMaggio 1988, 4–5). The possibility of uniting a more traditional interest analysis with new institutionalism is exemplified by Fligstein's (1990) study of the large corporation in the United States. Fligstein notes that the multidivisional form of organization spread for mimetic reasons—but also because this organizational form made it easier for firms to take advantage of new technology and the emerging national market.

### *Contributions Using Cultural Sociology*

A group of economic sociologists is committed to a cultural approach, and a substantial number also refer to symbols, meaning structures, and the like in their studies of the economy. Cultural economic sociology owes much to the work of its two most prominent representatives, Viviana Zelizer and Paul DiMaggio. In a programmatic statement Zelizer criticized contemporary economic sociology for its tendency to reduce everything to social relations and networks—"social structural absolutism" (1988, 629). She also rejected the alternative of reducing everything in the economy to culture ("cultural absolutism"). The goal should be to take economic ***and*** cultural factors into account. DiMaggio has been similarly skeptical of a full-scale cultural analysis of the economy, but argues that it should include a "'cultural' component"—but not more (DiMaggio 1994, 27; cf. Zukin and DiMaggio 1990, 17–18). According to DiMaggio, culture can be either "constitutive," referring to categories, scripts, and conceptions of agency, or "regulative," referring to norms, values, and routines.

Viviana Zelizer's work on culture occupies a central position (however, see also Dobbin 1994; Abolafia 1998). Her first major work (1979) was a study of life insurance in the United States, with special emphasis on the clash between sacred values and economic values. Over time the economic emphasis came to dominate. Later Zelizer published *Pricing the Priceless Child* (1985), which describes a similar movement, but this time in reverse. Children, who in the nineteenth century had had an economic value, would in the twentieth century increasingly be seen in emotional terms and regarded as "priceless." In her most recent major study (1994), Zelizer argues that money does not constitute a neutral, nonsocial substance, but appears in a variety of culturally influenced shapes ("multiple monies").

### *Contributions Building a Historical and Comparative Tradition*

A number of comparative and historical studies, bringing Max Weber's monumental works to mind, have been an ingredient of recent economic sociology (see Dobbin, chap. 2 in this volume). A few of the works already mentioned draw on historical material (e.g. Granovetter and McGuire 1998; Zelizer 1979, 1985, 1994). To this list should be added Bruce Carruthers's study of finance in seventeenth- and eighteenth-century England, and several attempts by economic sociologists to challenge Alfred Chandler's account of the rise of the large industrial corporation in the United States. Carruthers is interested in showing that not only do economic interests influence politics, but also the opposite: "political interests influence economic action" (1996, 7). Using primary material on the trade in shares in the East India Company in the early 1700s, he establishes that political ambitions clearly influenced the choices of buyers and sellers. The critique of Chandler has similarly emphasized the state's role in the emergence of the large industrial corporation. Chandler's key idea—that recent advances in technology had made it necessary around the turn of the last century to reorganize the large corporation as a multidivisional unit—has also been criticized (e.g. Fligstein 1990; Roy 1990, 1997; Freeland 1996, 2001).

Explicitly comparative studies are fewer in number. One notable work is *Forging Industrial Policy: The United States, Britain, and France in the Railway Age* (1994) by Frank Dobbin (see also Evans 1995). The author argues that industrial policy in these three countries between 1825 and 1900 differed on important points. In the case of the United States, local self-rule and a weak federal state meant that railway regulation translated into antimonopoly policy and attempts to safeguard private initiatives. The tradition of a centralized state in France inspired strong interference from the authorities in the planning and running of the railroads. And the tradition of safeguarding elite individuals in Britain helped to bring about an industrial policy that shielded the small, entrepreneurial firm.

### *The Contribution by James Coleman and Interest-Based Sociology*

The most radical attempt during the last few decades to develop a sociological interest analysis is that of James Coleman (1926–1995). His efforts were initiated in the early 1960s and found final expression in *Foundations of Social Theory* (1990). Coleman's intention was to use interest as the foundation for *all* of sociology, and initially he paid little attention to economic sociology (see, however, Coleman 1994). It should be mentioned, however, that in the same year Granovetter's essay on embeddedness appeared, Coleman published a brief article in which he developed the parallel argument that economists have failed to introduce social relations into their analysis (1985, 85).

The key theoretical chapter in *Foundations of Social Theory* is entitled "Actors, Resources, Interest, and Control" (chap. 2); it attempts to reconceptualize interest theory and to make it sociological. Coleman's point of departure is that it is not sufficient to speak of actors and their interests; "resources" and "control" must be considered. Coleman argues that if an actor has something of interest to another, the two will interact and thereby create a social system. In Coleman's terminology, if actor A has control over a resource that is of interest to actor B, they will interact.

*Foundations,* as well as other works by Coleman, contains a number of analyses of much relevance to economic sociology. Three subjects of particular importance are trust, social capital, and the modern corporation. Trust is conceptualized by Coleman in a manner very different from Simmel. While the latter emphasized trust as unthinking belief, Coleman characterizes trust as a conscious bet: you calculate what you can win and lose by trusting someone. Social capital is any social relation that can be of help to an individual in realizing an interest. "The function identified by the concept 'social capital' is the value of those aspects of social structure to actors, as resources that can be used by the actors to realize their interests" (Coleman 1990, 305). A firm represents, for example, a form of social capital—even if social capital is usually the unintended result of some action, undertaken for a different purpose. Finally, Coleman emphasizes that once people have created a firm to realize their interests, the firm can develop interests of its own (see especially Coleman 1974). To Coleman, the firm is basically a social invention, and agency theory is particularly useful for analyzing it.

### *Bourdieu and Other European Contributions to Economic Sociology*

New economic sociology is primarily a U.S. phenomenon and has only recently begun to spread to Europe. Many of the major European sociologists have, however, written on the economy as part of their general concern with society. This is not only true of Raymond Aron, Michel Crozier, and Ralf Dahrendorf, but also of major sociologists with notable contemporary influence, such as Niklas

Luhmann, Jürgen Habermas, and Pierre Bourdieu (cf. also Giddens 1973, 1987). Luhmann (1927–1998), for example, has written a number of essays on the economy, which, however, have been somewhat neglected in the current debate. His consistent thesis is that "economic sociology can only develop if its approach is overhauled and it sets out . . . from the concept of the economy as a subsystem of society" (Luhmann [1970] 1982, 221–22; cf. 1988; Beckert 2002, 201–40). Habermas has written much less on the economy than Luhmann and has not shown any interest in economic sociology. Nonetheless, his general thesis that in modern society the lifeworld of the individual has been uncoupled from the system world, including the economic subsystem, has been much discussed (e.g. Habermas 1984–87; cf. Sitton 1998; for knowledge-constitutive interests, see Habermas [1968] 1971).

Of the major European sociologists Pierre Bourdieu (1930–2002) has shown the most interest in the economy, from his studies of Algeria in the 1950s to a recent work on the housing market in *Les structures sociales de l'économie* (2000b). Bourdieu has also devoted issues of his journal *Actes de la recherche en sciences sociales* to economic topics, such as "social capital" (no. 31, 1980), "the social construction of the economy" (no. 65, 1986), and "the economy and the economists" (no. 119, 1997). Most importantly, however, he has developed an important theoretical alternative to the model of embeddedness and its offshoots, namely the idea of the economy as a field, with all that this implies.

Bourdieu's foremost empirical study of interest to economic sociology—*Travail et travailleurs en Algérie* (*Work and workers in Algeria*; 1963)—can be described as a rich ethnographic study (for a shortened version in English, see Bourdieu 1979). Some of its strength comes from the author's juxtaposition of the traditionalistic worldview of the Algerian peasants with the capitalist worldview of modern people. While the peasant in Algeria has an intensely emotional and nearly mystical relationship to the land, this is not the case in a society dominated by wage labor and capital. Work is not directly related to productivity in Algeria; one tries to keep busy all the time. Institutions such as money and credit are seen in a different light. Money and exchange are seen as inferior to barter; and credit—which, as opposed to assets, is tied to the person—is resorted to only in rare circumstances such as personal distress. In Algeria commercial ventures are preferred to industrial ones, since the risk involved is much smaller.

In economic sociology Bourdieu has also developed a general approach; an application of his general sociology, which is centered around the concepts of the field, habitus, and different types of capital. In 1997 he published an article entitled "The Economic Field," which was revised and given the new title of "Principles of an Economic Anthropology" a few years later (Bourdieu 1997, 2000a; see chap. 4 in this volume). Since Bourdieu is very critical of Granovetter's approach—for ignoring the structural dimension embodied in the notion of the field—one may well be justified in speaking about two different approaches in contemporary economic sociology: that of embeddedness and that of fields.

According to Bourdieu, the economy can be conceptualized as a field (as can an industry and a firm), that is, as a structure of actual and potential relations (Bourdieu and Wacquant 1992, 94–120; Bourdieu 1997; cf. Fligstein 2001). Each field has its own logic and its own social structure. The structure of a field can also be understood in terms of its distribution of capital. Besides financial capital, three other forms of capital are especially important: social, cultural, and symbolic. Social capital is one's connections of relevance to economic affairs; cultural capital comes from one's education and family background; and symbolic capital has to do with various items with a cognitive basis, such as goodwill and brand loyalty (Bourdieu 1997; for a general account of the different types of capital, see Bourdieu [1983] 1986). The individual actors in the economic field bring with them their "economic habitus" (or "economic predispositions"), which relates their future actions to their past experience. *Homo economicus,* Bourdieu says, is "a kind of anthropological monster" (1997, 61). Bourdieu's economic actor does not act in a *rational* way but in a *reasonable* way.

In addition to the three concepts of field, capital, and habitus important in Bourdieu's general sociology, there exists a fourth concept that is equally important but often ignored: *interest,* or that which drives the actor to participate in a field. "*Interest* is to 'be there,' to participate, to admit that the game is worth playing and that the stakes that are created in and through this fact are worth pursuing; it is to recognize the game and to recognize its stakes" (1998a, 77; cf. Bourdieu and Wacquant 1992, 115–17). The opposite of interest (or *illusio*) is indifference (or *ataraxia*). Each field has its own interest, even if it masquerades as disinterestedness. Bourdieu criticizes the economists' version of interest as ahistorical—"far from being an anthropological invariant, interest is a *historical arbitrary*" (Bourdieu and Wacquant 1992, 116). The economists are also wrong in thinking that "economic interest" drives everything; "anthropology and comparative history show that the properly social magic of institutions can constitute just about anything as an interest" (Bourdieu and Wacquant 1992, 117). The error of assuming that the laws of the economic field are applicable to all other fields in society Bourdieu terms "economism" (1998a, 83).

Bourdieu's analysis has been discussed in only limited ways in contemporary economic sociology. *Distinction* (Bourdieu [1979] 1986), for example, has much to say on preference formation and also contains a new approach to consumption. Bourdieu's emphasis on economic suffering and his attempt to tie it to the problematic of theodicy is also of much interest (e.g., Bourdieu et al. 1999). So is his related effort to discuss the normative aspect of economic sociology, for example, in his recent little book on "the tyranny of capital" (1998b; see also Bourdieu 2002).

It would, however, be incorrect to give the impression that Bourdieu is the only economic sociologist of interest in contemporary France. Luc Boltanski and Laurent Thévenot's work ([1987] 1991) on the different ways that an action can be justified or legitimized is of potential relevance to economic sociology (e.g., Stark 2000). Their ideas about the way that people legitimize their actions by referring to different "worlds" of justification are hard to summarize, and one example will have to suffice. A person who works for a firm may justify his behavior by referring either to efficiency ("the world of the market") or to loyalty ("the domestic world")—with very different results (Boltanski and Thévenot [1987] 1991). Boltanski has also criticized the network approach as ideological and procapitalistic (Boltanski and Chiapello 1999). In speaking of networks, it must also be mentioned that Michel Callon has added to network theory by arguing that not only individuals and organizations, but also *objects*, can be actors (e.g., Law and Hassard 1999; cf. Callon 1998). A machine, for example, can determine what kinds of actions a machine operator has to perform and also how she is connected to other people in the process of production. According to another important argument of Callon, economic theory often fits reality so well because it has helped to create this reality in the first place (so-called *performivity*).

Outside of the United States, France has become something of a center for innovative economic sociology, and to the work just mentioned one should also add the studies of Frédéric Lebaron on French economists, Emmanuel Lazeaga on work in a law firm, and Philippe Steiner on different types of economic knowledge (Lebaron 2000; Lazega 2000; Steiner 1998, 2001, 2004). There is considerable research in economic sociology in other European countries as well. Sociology of money and finance has, for example, several skillful practitioners in England and Spain (e.g., Dodd 1994; Ingham 1998, 2004; Izquierdo 2001). An innovative study of inheritance has just been published in Germany, where the sociology of finance is also very strong (Beckert, forthcoming; see also Beckert 2002; Knorr Cetina and Preda, forthcoming; cf. Zuckerman 1999). Industrial districts are being studied in Italy (e.g., Trigilia 2001). Finally, Knorr Cetina in Germany and Aspers in Sweden have independently of one another embarked on the project of applying phenomenology to economic sociology (Knorr Cetina and Brügger 2002; Aspers 2001b). A few general introductions to economic sociology have been published in Europe; there also is a newsletter exclusively devoted to economic sociology in Europe (Steiner 1999; Trigilia 2002; see *Economic Sociology: European Electronic Newsletter,* 1999–; see http://econsoc.mfipg.de).

## A Concluding Note

Space has constricted our review of both historical developments and contemporary highlights (the latter are amply covered in the chapters that follow). We have seen enough, however, to permit a few, equally brief, evaluative comments on the field of economic sociology today, and more particularly on the relations between economics and sociology.

What is unique about the situation, as it has developed through the 1990s, is that for the first time since the nineteenth century, mainstream economics has begun to analyze economic institutions again. This has already led to a number of interesting developments within economics proper as well as to a tentative dialogue with sociology and other social sciences, such as psychology and history. It is important that efforts be made, by sociologists as well as by economists, to deepen this dialogue since both disciplines are needed to fill the void created by nearly a century of neglect of economic institutions. As an example of cooperation between the economic and the sociological approach that has occurred since the first edition of the *Handbook,* we cite the important work of Avner Greif (e.g., 1994, forthcoming).

The "imperialistic" mode, whether in its sociological form or in its economic form, seems unpromising as a way of dealing with either economic behavior or economic institutions (or for that matter, behavior and institutions in general). The complexity of determinants bearing on every kind of behavior suggests the greater scientific utility of approaches that are less monolithic. It is true that "imperialistic" works have greatly stimulated the debate over economy and society. Eventually, however, this approach becomes counterproductive scientifically, tending to excite territorial battles rather than dispassionate inquiry.

Correspondingly, it is, in our opinion, more fruitful to pursue the kind of approach to economic sociology taken by Weber and Schumpeter in their social economics, or *Sozialokönomik*. Such an approach is broad-based and multidisciplinary. Economic sociology, in other words, should have its own distinct profile as well as cooperate and coexist with economic theory, economic history, and economic anthropology. We also hope that departments of economics will include economic sociology among their courses and hire economic sociologists, as business schools currently do in the United States.

While the current pluralistic approach has given economic sociology richness and vitality, the bolder, creatively synthesizing efforts of the classics are notably missing. Without that complementary line of theorizing, the field of economic sociology—like any area of inquiry that specializes and subspecializes—tends to sprawl. Continuing efforts to sharpen the theoretical focus of economic sociology and to work toward synthetic interpretations of its findings are essential.

One promising model of relating the fields of economics and sociology might be termed "complementary articulation." Of necessity, any line of disciplined inquiry focuses on certain operative variables and determinants, and "freezes" others into parametric assumptions. Often the ground thus frozen is that very territory which is problematical from the standpoint of some other line of social science inquiry. This dialogue about the precise role of operative variables and the conceptual status of parameters holds out the promise for communication and theoretical development in both economics and sociology. This strategy appears much more engaging than several others we have identified in this overview—imperialism, polemical hostility, mutual separation and toleration, or shapeless eclecticism.

Given the void after a century's neglect of economic institutions, we also expect that new questions will be raised that cut across the conventional boundaries between economics and sociology. For this reason it is essential that economists as well as sociologists be willing to entertain new and unfamiliar ideas. An opportunity, such as the current one, to pull economics and sociology closer to each other is rare and should not be neglected.

## Notes

1. While this chapter covers much of the same ground as our chapter in the first edition of the *Handbook* ("The Sociological Perspective on the Economy"), it has been completely rewritten and revised for the current edition. We have also introduced a new theme: the need to pay more attention to interests in economic sociology. For helpful comments we would like to thank Fred Block, Robyn Dawes, Frank Dobbin, and Viviana Zelizer.

2. The field has been called "the sociology of economic life," as in Smelser 1976 and in Granovetter and Swedberg 1992, 2001; Fred Block's (1990) preferred term is *sociology of economies*. We find little if any difference in denotation between these terms and *economic sociology*. For convenience we stay with the term that emerged in the classical literature. As a term for all social science analysis of the economy—economic theory plus economic history, economic sociology, and so on—we agree with Weber, Schumpeter, and Etzioni (1988) that *social economics* (*Sozialökonomik*) is an appropriate term.

3. The term *economic sociology* has also been used to denote a rational choice perspective as applied to social behavior in general (see Becker 1990). This usage is, to us, too broad since it encompasses practically all of sociology (*minus* the analysis of the economy proper).

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# 2 Comparative and Historical Approaches to Economic Sociology

*Frank Dobbin*

## Introduction

Students of economic behavior have long subscribed to the commonsense view that natural laws govern economic life. In the discipline of economics, the prevailing view is that economic behavior is determined exogenously, by a force outside of society, rather than endogenously, by forces within. Self-interest is that force, and it is exogenous to society because it is inborn—part of human nature. Self-interest guides human behavior toward the most efficient means to particular ends. If economic behavior is instinctual, the reasoning goes, we need to know little about society to predict behavior.

Sociologists have always found this approach appealing, not least because it supports the Enlightenment view that the universe is knowable—that it can be understood by science. There is something inherently attractive about cogent mathematical formulas that can explain the velocity of light, or the price people pay for coffee.

However, sociologists have always made comparisons across societies and over time, and they invariably come to the conclusion that the lion's share of economic behavior can only be explained by society itself—by context. Whether you are running a farm in Croatia or in Sicily matters quite a bit for how you will behave. We cannot predict much about how you will run a railroad in Cleveland without knowing whether the year is 1880 or 1980. Historical and comparative studies illuminate the role of society in shaping economic behavior like nothing else can.

The discipline of sociology was launched by men who sought to understand modernity. How did societies come to be organized around progress, rationality, and science, when for so long they had been organized around tradition, myth, and ritual? Sociologists grappled with this question by making comparisons across societies and over time. These comparisons were driven by the observation that social context shapes economic behavior—that modern rational behavior is learned, not innate.

The comparative and historical method is one of sociology's comparative advantages. Sociologists more frequently use this method than do economists, and the method itself tends to highlight contextual differences in economic behavior. This difference between the disciplines emerged only gradually, for the two disciplines began as one. As economics moved toward highly stylized rational-actor models and away from comparative and historical studies, early analysts who emphasized the role of social institutions in shaping economic behavior, including Karl Marx and Max Weber, were rejected by economists and embraced by sociologists.

Marx, Weber, and Émile Durkheim sought to understand the rise of modern economic behavior by comparing precapitalist societies to capitalism. Marx explored the transition from feudalism to capitalism; Weber the capitalist impulse that arose with Protestantism; and Durkheim the rise of capitalism's division of labor. As capitalism was in its infancy, none was certain that modern industrial capitalism would take widely different forms, though Weber described a number of different forms, including booty, political, imperialist, colonial, adventure, and fiscal capitalism (1978, 164–67; see also Swedberg 1998, 47). The comparative and historical methods these men developed were designed to explain why human behavior varied over time and across contexts.

Historical analysts often build directly on the problematic that Marx, Durkheim, and Weber sketched—how did modern economic practices come about? Comparative analysts often take another tack, trying to understand the social forces that cause modern economic systems to differ so dramatically. If human nature drives the evolution of economic systems and if human nature is universal, why do economic systems take such different forms? Historical and comparative works in economic sociology point to society itself, suggesting that societies develop along different trajectories for reasons having to do with history and happenstance.

In this chapter I review historical and comparative works in economic sociology that seek to explain the substantial variation found in economic behavior across time and space. While most sociologists share the view that economic behavior patterns are driven by social processes rather than by instinct alone, they have argued that different sorts of social processes are primary. Some focus on power relations, others on institutions and social conventions, and still others on social networks and roles. Comparative and historical sociologists once treated these perspectives as alternatives, but they increasingly treat them as complementary.

Next I review the theoretical underpinnings of power, institutional, and network approaches. Then I sketch the analytic methods used by historical and comparative sociologists before turning to a review of empirical studies.

### *How Power, Institutions, and Networks Shape Economic Behavior*

Most economic sociologists proceed inductively, looking at how economic behavior varies over time or across countries and tracing that variation to something about social context. This is quite different from the approach of most neoclassical economists, who proceed deductively from the premise that individual self-interest explains economic behavior. Studies of investment among early Protestants, management of new enterprises in China's market-oriented sector, and business strategy among Argentine wine producers have produced myriad insights about the forces that shape economic behavior. But one of three different social processes is usually at the heart of the matter, and these processes have been spelled out in power, institutional, and network theories.

#### *Power*

Power relations shape economic behavior, both directly, as when a powerful firm dictates to a weak supplier, and indirectly, as when a powerful industry group shapes regulation to its own advantage. The structural theory of power is the direct inheritor of Marx's ideas, even if not all of its practitioners would call themselves Marxists. They include Neil Fligstein (1990), William Roy (1997), Beth Mintz and Michael Schwartz (1985), Michael Useem (1996), and Charles Perrow (2002). Their concern is with how powerful groups succeed in promoting practices and public policies that are *in their interest* as being *in the common interest*. Marx described the capitalist state as a tool of the capitalist class, which justified its existence under the guise of political liberalism. His idea was that modern states serve one group while claiming to embody principles that benefit everyone. Structural theorists of power explore the role that power plays in determining the state policies, corporate strategies, and individual behaviors that we take to be transparently rational. When a particular group succeeds in promoting its favorite public policy or business strategy—in making that approach the new convention—that group can reinforce its own power or wealth without having to exercise constant coercion.

#### *Institutions*

Social institutions—conventions and the meanings they have for people—shape economic action. Weber (1978) argued that social conventions must be understood in terms of their subjective meaning to individuals because we behave in ways that are meaningful to us—that we understand (see Swedberg 1998). Sociological institutionalists understand economic behavior to be regular and predictable not because it follows universal economic laws, but because it follows meaningful institutionalized scripts (Meyer and Rowan 1977; Scott 1995; Powell and DiMaggio 1991). The meaning underlying modern behavior patterns is highly rationalized. We know what the decision to downsize the workforce might mean—that the workforce is larger than need be, or that the stock market expects higher returns from the firm. Economic customs thus carry meaning, and economic customs often spread as fads spread. The fad of downsizing appeared on the horizon, and suddenly firms were doing it whether they needed to or not (Budros 1997). Since the time of Weber, institutionalists have also pointed to the ways in which wider social institutions—religious, educational, labor market—constrain and shape economic behavior.

#### *Social Networks*

Your social network—what sociologists used to call your peer group and role models—influences your behavior by providing concrete examples of how to behave and by enforcing sanctions for misbehavior. Network theory builds on Simmel's and Durkheim's ideas about how the individual's position in a social milieu shapes both his behavior and