COURSE MATERIAL

MIZAN- TEPI UNIVERSITY

COLLEGE OF SOCIAL SCIENCE AND HUMANITIES

DEPARTMENT OF SOCIOLOGY

ECONOMIC SOCIOLOGY – SOCI2081

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Module Name	**Economy and Society**
Module Code	**SocM2081**
Clustered Courses	**SOCI2081: Economic Sociology – 5 ECTS** **SOCI2082: Sociology of Work, Industry and Organization-5ECTS**
ECTS	**10**
Total Module Study Hour	**270 hours (135 hours for each course)**

Module Description

This module encompasses two courses: Economic Sociology and Sociology of Work, Industry and Organization. The module emphasizes on the interconnections between economic activity, social relationships, culture, institutional structures, symbols, social networks and inter-actor relationships. It also focuses on major aspects of the economy, namely, work, industry and organization. In doing so, it deals with the nature of work and industry, division of labour; formal organizations, bureaucracy and its structure, organizational goals, approaches to organizational analysis; major theoretical perspectives in industrial and organizational; and industry and industrial relations.

Module Objectives

On the first place, the module aims to acquaint the students with the basic concepts in the field of economic sociology, demonstrate fallacies of conventional economic theories, and the social constructions of economic institutions, as well as introduce major debates and conceptual approaches in the sociology of markets. Secondly, the module aims to equip students with understanding of the historical development of modern forms of work and work ethic; the work of prominent thinkers of sociology of work, understanding of particular occupations, and knowledge of the process of industrialization; and critique the various forms of work management.

Module Competency

Up on completing this module, students will be able to:

- ✓ Explain how economic exchange is facilitated by social and cultural processes in the form of values, norms, and symbols that help economic actors to make sense of what goes on and how they act in the economic world; and
- ✓ Understand the social aspects of work, industry and work organizations.

Course Description

This course mainly aims to introduce students to basic concepts in the field of economic sociology. The course also attempts to demonstrate to students the fallacies of conventional economic theories and the social constructions of economic institutions. In addition to this, it also discusses major debates and conceptual approaches in the sociology of markets.

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Section One: Introduction

1.1. Definition of Economic Sociology

Economic sociology—to use a term that Weber and Durkheim introduced—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 concerned with the production, distribution, exchange, and consumption of scarce goods and services.*

1.2. Basic Concepts in Economic Sociology

Economy

There are two fairly representative approaches, which have important implications for how one may look at the economy and its relationship with society. They have been suggested by Karl Polanyi (1977), a social scientist whose work cannot be confined within traditional disciplinary boundaries.

A. The Economy as an Institutionalized Process

In the first, the economy is presented as *bodies of activities which are usually carried out by members of a society in order to produce, distribute, and exchange goods and services*. The economy here is conceived as an institutionalized process – it is guided by relatively stable rules – of interaction between men and nature in the satisfaction of a society's needs. These needs are not exclusively physical; they may also be cultural, scientific or military. However, to the extent that the production and distribution of goods and services is needed to satisfy them, the economy is involved.

B. The Economy as a Rational Pursuit

Although it is apparently straightforward and easy to understand, this definition is not widely accepted. That is to say, not all economists subscribe to it and a second definition is more typically found in economics textbooks. In this formulation, the emphasis is on "economizing" as a synonym for economic phenomena, which is to say, on *activities which involve the rational allocation of scarce resources in order to obtain the most from the means available*.

On this view, individuals carrying out economic activities are motivated by the rational pursuit of their interests, while the rules conditioning the interaction between them are set by the market as a result of the effect of demand and supply on prices. The ways in which goods and services are produced can therefore be explained through the "maximizing" choices of individuals in a market context. Thus, for example, one may suppose that individuals will be willing to buy more of a good if the price is low, because of the relationship between demand and supply, and vice versa if the price is high. For their part, if the price is high, the producers of the good will tend to supply more of it, and vice versa. So it becomes clear that the amount and price of goods produced will depend on the trade-off between the demand of both consumers and producers on the market. The same mechanism is true for the distribution of income among various economic actors. For example, payment for labor will depend on the relationship between demand and supply. If the supply of labor grows with respect to demand, wages will tend to decrease as a consequence.

Economic Action

For an economist, *economic action* refers to an action by an actor who is assumed to have a given and stable set of preferences and who chooses that alternative line of a ction which maximizes utility. Sociology, on the other hand, encompasses several possible types of economic action. For example, for Weber economic action can be either rational, traditional, or affectual.

Economic Policy

Economic Policy refers to measures taken by governments to influence the behavior of the economy. Some measures, such as the budget, operate over the whole economy and constitute policy in the sphere of macroeconomics; others operate on a specific and limited part of the economy and represent policy in the realm of microeconomics. The two kinds of policy impinge on one another, since measures affecting the whole economy necessarily impact the parts, and what affects any part or aspect of the economy registers in the performance of the whole.

Economic System

An *economic system* refers to the laws and institutions in a nation that determine who owns economic resources, how people buy and sell those resources, and how the production process makes use of resources in providing goods and services.

Culture

In the current usage of language, two concepts of *culture* may be distinguished:

An extended concept of culture that describes all man-made creations of human living conditions; "culture" here is in contrast to all things found in nature. The spectrum of cultural forms then stretches from house building to the use of tools, clothing, and social manners to state and social institutions up to the spheres of science and art.

A narrow concept of culture, on the other hand, limits itself to spiritual and artistic aspects. It often carries a connotation of something "higher" and free of purpose. "Culture" in this context is mainly identical with the literature, the fine arts, and philosophy.

Market

Market refers to any established operating means or exchange for business dealings between buyers and sellers. As opposed to simple selling, a market implies trade that is transacted with some regularity and regulation, and in which a certain amount of competition is involved. However, the term *market* is also used to denote a place where goods are bought and sold, and to refer to potential or estimated consumer demand.

Embeddedness

Embeddedness refers to the idea that it is impossible to understand an economy without linking it to the culture in which it exists because action in general and economic action in particular is always socially orientated and cannot be explained only on the basis of individual motivations. In other words, *embeddedness* implies that the economic action of individuals as well as larger economic patterns, like the determination of prices and economic institutions are very importantly affected by networks of social relationships. The concept emerged as a criticism against the theory of action in economics and its 'under-socialized' vision of actors in society.

Political Economy

Until about 1880, the term *political economy* encompassed the area of social thought subsequently known as economics, and a great deal besides. More recently, it has acquired a range of different meanings. With the rise to dominance of neoclassical economics in the twentieth century, it was used increasingly in reference to non-neoclassical economics, and particularly to Marxian theory. Some economists describe their work as political economy in order to distinguish it from the mainstream. However, in recent decades, orthodoxy itself has come to embrace what it regards as legitimate political economies that seek to explain institutions, including those of politics, along with government policies in terms of rational choice theory.

Economics

Economics, social science concerned with the production, distribution, exchange, and consumption of goods and services. Economists focus on the way in which individuals, groups, business enterprises, and governments seek to achieve efficiently any economic objective they select. Other fields of study also contribute to this knowledge: Psychology and ethics try to explain how objectives are formed; history records changes in human objectives; sociology interprets human behavior in social contexts.

Standard economics can be divided into two major fields. The first, price theory or ***microeconomics***, explains how the interplay of supply and demand in competitive markets creates a multitude of individual prices, wage rates, profit margins, and rental changes. Microeconomics assumes that people behave rationally. Consumers try to spend their income in ways that give them as much pleasure as possible. As economists say, they maximize utility. For their part, entrepreneurs seek as much profit as they can extract from their operations.

The second field, ***macroeconomics***, deals with modern explanations of national income and employment. Macroeconomics dates from the book, *The General Theory of Employment, Interest, and Money* (1935), by the British economist John Maynard Keynes. His explanation of prosperity and depression centers on the total or aggregate demand for goods and services by consumers, business investors, and governments. Because, according to Keynes, inadequate aggregate demand increases unemployment, the indicated cure is either more investment by businesses or more spending and consequently larger budget deficits by government.

1.3. Subject Matter of Economic Sociology

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 concentrates 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.

1.4. Economic Sociology Vs Mainstream Economics

What is the difference between economic sociology and the study of economics? Although aspects of the two disciplines overlap, each provides a unique perspective on economic institutions. Economists attempt to explain how the limited resources and efforts of a society are allocated among competing ends. While economists focus on the complex workings of economic systems (such as monetary policy, inflation, and the national debt), sociologists focus on interconnections among the economy, other social institutions, and the social organization of work. With this broad difference in mind, the following comparison between the central features of mainstream economics and economic sociology will clarify the specific nature of the sociological perspective.

1. 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 was elucidated systematically by the Austrian economist Carl Menger and given the label *methodological individualism* by Schumpeter. 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.”

2. The Concept of Economic Action

In microeconomics 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. 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).

3. The Scope of Rational Action

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*. For one thing, the actions of some individuals or groups may be more rational than others.

Along the same lines, sociologists tend to regard rationality as a phenomenon to be explained, not assumed.

4. The Status of Meaning in Economic Action

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". Meanings are historically constructed and must be investigated empirically, and are not simply to be derived from assumptions and external circumstances.

5. 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". 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

Table1.1. Economics vs. Economic Sociology

S.N.	Point of Comparison	Discipline	
		Economics	**Economic Sociology**
1	**The Concept of the Actor**	Methodological individualism	The actor as a socially constructed entity, as "actor-in-interaction," or "actor-in-society."
2	**The Concept of Economic Action**	Economically rational action	Several possible types of economic action. Economic action can be rational, traditional, or affectual.
3	**The Scope of Rational Action**	*Formal rationality* - the conventional maximization of utility, under conditions of scarcity. Rationality as an *assumption,*	In addition to *formal rationality* there is also *substantive rationality* - allocation within the guidelines of other principles, such as communal loyalties or sacred values. Rationality as a *variable.*
4	**The Status of Meaning in Economic Action**	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.	Meanings are historically constructed and must be investigated empirically, and are not simply to be derived from assumptions and external circumstances.
5	**Constraints on Economic Action**	Actions are constained by tastes and by the s carcity of resources, including technology.	Actions are constained by other persons and gro ups, as well as the influence of institutional structures

6	**The Economy in Relation to Society**	The main foci 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.	Societal parameters lie at the center of the analysis of economic phenomena.
7	**The Goal of Analysis**	Stress the importance of prediction	Offer fewer formal predictions, and often find sensitive and telling descriptions both interesting in themselves and essential for explanation.
8	**Models Employed**	Place such high value on expressing hypotheses and models in mathematical form	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.
9	**Intellectual Traditions**	Little emphasis on the classics with notable exceptions such as Adam Smith and David Ricardo	Significant emphasis on the classics such as Emile Durkheim, Max Weber, Karl Marx, etc

elsewhere.

6. *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. 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. Nevertheless, for economic sociologists the societal parameters lie at the center of the analysis of economic phenomena.

7. *The Goal 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.

8. *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. 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.

9. *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 o f 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 s ociologists. In addition, economists and sociologists find it profitable to collaborate in specific problem areas such as poverty and labor markets.

1.5. Historical Changes in Econmic Systems

In all societies, the specific method of producing goods is related to the techno- economic base of the society. In each society, people develop an economic system, ranging from simple to very complex, for the sake of survival.

1.5.1. Preindustrial Economies

Hunting and gathering, horticultural and pastoral, and agrarian societies are all preindustrial economic structures—economies where in most workers engage in primary sector production, i.e. the extraction of raw materials and natural resources from the environment. These materials and resources typically are consumed or used without much processing.

The production units in hunting and gathering societies are small; most goods are produced by family members. The division of labour is by age and gender (Hodson and Sullivan, 1990).

The potential for producing surplus goods increases as people learn to domesticate animals and grow their own food. In horticultural and pastoral societies, the economy becomes distinct from family life. The distribution process becomes more complex with the accumulation of a surplus such that some people can engage in activities other than food production.

In agrarian societies, production is related primarily to producing food. However, workers have a greater variety of specialized tasks, such as warlord or priest; for example, warriors are necessary to protect the surplus goods from plunder by outsiders (Hodson and Sullivan, 1990). Surplus goods are distributed through a system of barter—the direct exchange of goods or services considered of equal value by the traders. However, bartering is limited as a method of distribution; equivalencies are difficult to determine (how many tef equals one chicken?) because there is no way to assign a set value to the items being traded. As a result, money, a medium of exchange with a relatively fixed value, came into use in order to facilitate the distribution of goods and services in society.

1.5.2. Industrial Economies

Industrialization brings sweeping changes to the system of production and distribution of goods and services. Prior to the 19th century, people did not have jobs; they did jobs (Bridges, 1994). Thus industrial production caused a dramatic change in the nature of work. Drawing on new forms of energy (such as steam, gasoline, and electricity) and technology, factories proliferate as the primary means of producing goods. Wage labour is the dominant form of employment relationship; workers sell their labour to others rather than working for themselves or with other members of their family. In a capitalist system, this means that the product belongs to the factory owner and not to those whose labour creates that product.

Most workers engage in secondary sector production—the processing of raw materials (from the primary sector) into finished goods. For example, steel workers process metal ore; auto workers then convert the ore into automobiles, trucks, and buses. In industrial economies, work becomes specialized and repetitive, activities become bureaucratically organized, and workers primarily work with machines instead of with one another.

This method of production is very different from craftwork, where individual artisans perform all steps in the production process.

Mass production results in larger surpluses that benefit some people and organizations but not others. Goods and services become more unequally distributed because some people can afford anything they want and others can afford very little.

1.5.3. Postindustrial Economies

A postindustrial economy is based on tertiary sector production-the provision of services rather than goods as a primary source of livelihood for workers and profit for owners and corporate shareholders. Tertiary sector production includes a wide range of activities, such as fast-food service, transportation, communication, education, real estate, advertising, sports, and entertainment.

Sociologist Daniel Bell (1973) predicted that the manufacturing sector of the U.S. economy would be replaced by a service and information processing sector, based on technical skills and higher education (the postindustrial society"). Bell suggested that professionals, scientists, and technicians would proliferate and that many blue-collar and lower-paying, secondary service sector positions gradually would disappear. These changes would bring about greater economic stability and fewer class conflicts. Workers' feelings of alienation would be alleviated by greater participation in the decision-making process.

A number of factors created the service economy. Mechanization and technological innovation have allowed fewer workers to produce more in both the manufacturing and primary sectors. Robots have replaced assembly line workers and tractors and factory ships have enabled farmers and fishers to produce more than their predecessors. The expansion of our economy and the increased leisure time available has increased the demand for a wide variety of services. Finally, much of the low-skill production is now done offshore, where wages are much cheaper, leaving components such as design, sales, and marketing in North America, Europe, and Japan.

Highly skilled "knowledge workers" in the service economy have benefited from the stable, less alienating postindustrial economy Bell predicted. However, these benefits have not been felt by those who do routine production work, such as manufacturing and data entry, and workers who provide personal services, including restaurant workers and sales clerks. The positions filled by these workers of the service sector, as mentioned previously, form a second tier where labour is typically unskilled and poorly paid. And these are positions Bell predicted would gradually disappear. In his study of the "McDonaldization" of society, however, sociologist George Ritzer (1993) suggests that the number of lower-paid, second-tier service sector positions actually has increased. Many jobs in the service sector emphasize productivity, often at the expense of workers. Fast-food restaurants are a case in point, as the manager of a McDonald's explains:

As a manager I am judged by the statistical reports which come off the computer. Which basically means my crewlabour productivity. What else can I really distinguish myself by? ... O.K., it's true, you can over spend your [maintenance and repair] budget; you can have a low fry yield; you can run a dirty store, every Coke spigot is monitored. Every ketchup squirt is measured. My costs for every item are set. So mycrew labour productivity is my main flexibility ... Look, you can't squeeze a McDonald's hamburger any flatter. If you want to improve your productivity there is nothing for a manager to squeeze but the crew. (quoted in Garson, 1989:33-35)

"McDonaldization" is built on many of the ideas and systems of industrial society, including bureaucracy and the assembly line (Ritzer, 1993).

Also contrary to Bell's prediction, class conflict and poverty may well increase in postindustrial societies (see Touraine, 1971; Thompson, 1983). Recently, researchers also have found that employment in the service sector remains largely gender segregated and that skills degradation, rather than skills upgrading, has occurred in many industries where women hold a large number of positions (Steiger and Wardell, 1995). To gain a better understanding of how our economy works today, we now turn to an examination of contemporary economic systems and their interrelationship in an emerging global economy.

1.6. Contemporary Economic Systems

During the twentieth century, capitalism and socialism have been the principal economic models in industrialized countries. Sociologists often use two criteria—property ownership and market control to distinguish between types of economies.

1.6.1. Capitalism

Capitalism is an economic system characterized by private ownership of means of production, from which personal profits can be derived through market competition and without government intervention. Most of us think of ourselves as “owners" of private property because we own a car, a stereo, or other possessions.

However, most of us are not capitalists; we spend money on the things we own, rather than making money from them. Capitalism is not simply the accumulation of wealth, but is the "use of wealth'" as a means for gathering more wealth" (Heilbroner, 1985:35).Relatively few people own income-producing property from which a profit can be realized by producing and distributing goods and services. Everyone else is a consumer. "Ideal" capitalism has four distinctive features:

(1) Private Ownership of the Means of Production, (2)
Pursuit of Personal Profit,
(3) Competition, and
(4) Lack of Government Intervention.

1.6.2. Socialism

Socialism is an economic system characterized by public ownership of the means of production, the pursuit of collective goals, and centralized decision making. Like "pure" capitalism, "pure" socialism does not exist. Karl Marx described socialism as a temporary stage en route to an ideal communist society. Although the terms socialism and communism are associated with Marx and often are used interchangeably, they are Not identical. Marx defined communism as an economic system characterized by common ownership of all economic resources (G. Marshall, 1994).

"Ideal" socialism has three distinctive features:

1. *Public Ownership of the Means of Production*
2. *Pursuit of Collective Goals*
3. *Centralized Decision Making*

1.6.3. Mixed Economies

No economy is truly capitalist or socialist; most economies are mixtures of both. A mixed economy combines elements of a market economy (capitalism) with elements of a command economy (socialism). Sweden and France have mixed economies, sometimes referred to as democratic socialism—an economic and political system that combines private ownership of some of the means of production, governmental distribution of some essential goods and services, and free elections. Government ownership in Sweden, for example, is limited primarily to railroads, mineral resources, a public bank, and liquor and tobacco operations (Feagin and Feagin, 1994). Compared with capitalist economies, however, the government in a mixed economy plays a larger role in setting rules, policies, and objectives.

The government also is heavily involved in providing services such as medical care, child care, and transportation. In Sweden, for example, all residents have health insurance, housing subsidies, child allowances, paid parental leave, and day-care subsidies. National insurance pays medical bills associated with work-related injuries, and workplaces are specially adapted for persons with disabilities. College tuition is free, and public funds help subsidize cultural institutions such as theatres and orchestras ("General Facts on Sweden,"1988; Kelman, 1991). While Sweden has a very high degree of government involvement, all industrial countries have assumed many of the obligations to provide support and services to its citizens. However, there are very significant differences in the degree to which these services are provided among these countries.

1.7. Formalism and Substantivism

1.7.1. Formalism

Formalism contains within its argument the basic principles of classical economic theories. For formalists, individual value maximization of scarce resources by choice through logical reasoning of information available governs the economic life of all individuals, past and present. The formalist approach is broken down into several steps. First, individuals strive to maximize their utility when given a choice between substitutes. Second, individuals make their decisions based on rationality. When presented with two seemingly equal substitutes, one gathers all the information available to choose between the two, measuring the benefits of acquiring each item. Third, all individuals live under conditions of scarcity. This implies that no goods are freely available in unlimited quantities forever. Formalists maintain the universality of this approach, asserting that all individuals are presented with this dilemma. It is not strictly economic goods and services that are maximized according to formalists, but rather individual preferences are unrestricted. Individuals economize everything, from leisure time to marriage partners. Therefore, classical economic theories of maximization are present in any society or culture within the formalist framework. Unlike Substantivism, Formalism focuses on the individual's participation within the structure of the economy, and not how this structure affects the individual's relationship with the economy. Barry Isaac's account of the formalist position is rather informative:

Starting in 1966, a formalist school of economic anthropology arose in opposition to the Polanyi group's substantivist school. The formalist attack was two-pronged: (1) that the models developed by microeconomics were *universally applicable and, thus superior to substantivism for both economic anthropology and comparative economics; and (2) that economic anth ropology was no longer primarily concerned with the*

kinds of economies for which the substantivists' tools were developed…The underlying methodological question was that of the pr oper unit of analysis. Because the formalists focused upon choice, which is always individual, their approach necessarily entailed methodolog ical individualism. The substantivists, on the other hand, focused upon th e institutional matrix in which choice occurs.

Much of the **criticism** devoted towards this approach has stemmed from s ubstantivists' concerns that maximization of utility is a creation of market oriented economies, and because primitive societies do not necessarily contain such facets of interaction it is problematical to apply these theories.

1.7.2. Substanitivism

The substantivist school, unlike the formalist, has a central figure that has c ontributed the major tenets of the ideology, while the successive members ha ve expanded these views. Karl Polanyi, the founder of the substantivist school, argues the following:

The simple recognition from which all such attempts must start is the fact that in referring to human activities the term economic is a compound of two meanings that have independent roots. We will call them the substantive and the formal me aning. The substantive meaning of economic derives from man's dependence for hi s livelihood upon nature and his fellows. It refers to the interaction with his n atural and social environment, insofar as this results in supplying him with the means of material want satisfaction. The formal meaning of economic derives from the logical character of the means-ends relationship, as apparent in such *words as ‘economical’ or ‘economizing’. It refers to a definite situation of choice, namely, that between the different uses of means induced by an insufficiency of the means. If we call the rules governing choice of means the logic of rational action, then we may denote this variant of logic, with an improvised term, as formal economics.*

Polanyi later argues that these two meanings have nothing in common:

The latter [formal] derives from logic, the former [substantive] from fact. The formal meaning implies a set of rules referring to choice between the alternative uses of insufficient means. The substantive meaning implies neither choice nor insufficiency of means; man’s livelihood may or may not involve the necessity of choice and, if choice there be, it need not be induced by the limiting effect of a ‘scarcity’ of the means.

For Polanyi, there isn’t much to debate. The field of economics has two basic definitions: the formal, in which the logic of rational choice between scarce means governs the actions of individuals, and the substantive, which presumes neither rational choice nor conditions of scarcity, but rather focuses on the fact that individuals or groups of individuals are affected by their environment. Polanyi argues that the substantive meaning presupposes none of the classical economic theories of rational decision making or conditions of scarcity. The substantive is rather how a society adapts to its environment or how the society meets its material needs economically. He asserts that because the formalist theories emerged from market-oriented economies their application to pre-industrial and primitive economies is incompatible. In societies without price-making markets maximization based on economic profit does not occur, but rather social, cultural and political influences affect the individual’s choice. It is therefore argued by Polanyi, and the subsequent substantivists, that only the substantive meaning of economic is appropriate towar ds the study of primitive economies.

1.7.3. The Debate

Nearly two decades after Karl Polanyi presented his substantive arguments in 1944 against the application of classical economic theory on primitive economies, Scott Cook introduced the first opposition to the substantive theories and illuminated a clear dichotomy between two schools of thought. In a 1966 paper entitled *"The Obsolete Anti-Market Mentality,"* Cook formally presented a division that had emerged between scholars who maintained that classical economy theory is applicable to the study of primitive economies (formalists), and those who believed that it is limited only to market-oriented and price-governed economic systems. By critiquing several contributing members of the substantive school, he successfully demonstrates that there are two main dogmas concerning the application of classical economic theory on primitive societies. Cook begins by assessing the theories of George Dalton and Paul Bohannan, two preeminent students of the Polanyi school, of which Dalton's critique is highlighted.

Dalton's basic assessment is that, since formal economic theory is primarily oriented around and derived from market-dominated economies and not in primitive-subsistence, substantive economic theory is the only legitimate analytical tool for such societies. What is important to note in all of this is that Dalton concedes that formalist models are better suited towards capitalistic and market-oriented economies (a tenet that Polanyi would have been bemused by, considering that his work was founded on building a model to compare economies universally) . Cook notes this conflicting paradox with in their theses. While Polanyi sought to create comparative connections between economies, Dalton and Bohannan hold that there is a fundamental difference between the two types of economies, primitive-subsistence and market oriented.

Cook highlights the two crucial elements within the debate: (1) that Karl Polanyi and the students of the substantivist school hold that formal economic theory is inapplicable to the explanation of non-market and primitive economies because it is a "creature of the 19th century Market economy;" and (2) that the debate could not be resolved because it was cast in terms of "metaphysical (untestable) propositions" versus empirical economic scientists.

Section Two: Social Construction of Economic Institutions

2.1. Critique Of Neo-Classical Economics

2.1.1. Self-Interest and Neo-Classical Economics

Since the enlightenment, Western ideas about society have been cast largely in terms of individual rights and freedoms, elevating autonomy to a virtue, in opposition to the bonds and chains of tyranny. It should be no surprise, then, that Western economic thought also starts with the individual and tries to understand the whole of work, trade, and money by analyzing the behavior of the single human being. This approach can be labeled selfish only because it begins with the individual "self," not because it always assumes that human beings act selfishly. On the contrary, most modern economists portray human beings as essentially rational and intelligent, and they specifically want to avoid the kind of value judgments about morality and motives that are implied when we use a term like "selfish" to describe someone's behavior.

2.1.2. The Foundations Of Modern Economics

As the amount of trade and the importance of economic activity to state revenues increased dramatically in the fifteenth and sixteenth centuries, scholars began to seek principles and laws to guide public practice. Their most urgent problems revolved around national finances, trade, and the regulation of money. Rulers and administrators needed to know how to set tariffs, raise revenues, and deal with shortages of goods food and cash.

In this setting, what we now recognize as macroeconomics began as a discussion of mercantile issues, part of the rapid expansion of the West into Asia and the New World. Economic philosophers asked what was good for the nation, reflected on whether the national good was aligned with or opposed to the interests of individuals, and pondered how much the state should intervene in economic affairs.

Seeking mechanical natural laws of economics on a par with physical laws, Sir Dudley North (1641 – 1691) argued that left to itself, trade would follow mathematical laws – and government regulation would only interfere with a self- regulating system. Others, like Sir William Petty 91623 – 1687) who invented national economic statistics favored government intervention and regulation. These economists felt that the government, f or example, must keep gold in the country, because gold is wealth, so the state must encourage exports and discourage imports, look for raw materials, and set up foreign trade outposts.

The notion of natural economic laws arose not as a philosophical speculation about human nature but as part of a complex debate about government policy, d uring the 1600s and 1700s, a period of mercantile expansionism and growth in the institutions of the nation-state. Issues of trade and money were pulled away from theology as a practical matter, in the name of national interests. This allowed, for the first time, an abstract and philosophical discussion of values as a separate form of morality, crucial step in the development of economics.

1) **ADAM SMITH**

The real start of modern Western economics as a discipline is usually traced to Adam smith (1723 – 1790). Beginning as a moral philosopher concerned with h uman motives, Smith later wrote the Wealth of Nations in 1776 as a series of lectures on public policy. The task he set for himself was that of a natural scientist, to discover the workings of a vast machine the economy. His book deals with the division of labor as a vehicle of progress, the role of money, taxes, wages, profits, trade, and the health of the national economy. He built a structure of logic, founded ultimately on a theory of value, leading to strong arguments against the intervention of the state in economic affairs.

The fundamental problem faced by early economists was to find some measure of value that did not make recourse to religion. To build an empirical science, they had to find some way to define "good" in a secular way, without reference to scripture or divine judgment; this was the central goal of Adam smith's earlier the Theory of Moral Sentiments (1759). Economic philosophers needed a yardstick that was not blessed by God, because they were seeking rational science rather than theology. Smith's argument about value is therefore crucially important and is worth tracing in more detail.

In the Wealth of nations, he first asserts that value cannot be measured by money, because sometimes money is artificially scarce (a shortage of coins was a common problem in his times). Value is also not the same as utility or usefulness, as is shown by the comparison of water (useful, low value) and diamonds (useless, high value). Therefore, because all labor is of equal value to the worker, labor is the best measure of value. The real or natural value of a good is the amount of labor it takes to produce it. Smith used contrasts between primitives and moderns to get at this natural scale of values. Among North American Indians, he said, beavers were traded for deer in a rate corresponding to the amount of time it took to hunt them. In this imaginary primitive "rude" society, all labor has the same value, labor is the only factor of production, and all resources are equally available.

In contrast, in "civilized" society, values are determined by exchange, not by production. Value is thus determined by the amount of supply (thought not by the demand) and by disutility, or the amount of work a person can save by trading for something instead of making it. Rents and profits become part of the value of things, because they represent the cost of land, tools, and property necessary for production. Smith therefore has two theories of value, one rooted in the individual (labor) and one in society (exchange). He never quite solves the problem of linking together the two sorts of value, but he makes a clear statement of priority by identifying the value of an individual's labor as "natural."

Using his theory of value, Smith tries to reason out answers to pressing social and political problems and issues of the day through logic and empirical observation. His goal is to understand how the economy can work to make prices reflect natural values so that workers are justly compensated for their labors. And he wants to show how, at the same time, this can lead to the generation of wealth, in the form of productive resources, property, factories, and the like, that will build a powerful nation. His answer is the mechanism of the market, which acts like an "invisible hand" to bring prices and values together and to provide at the same time the rents and profits that make the accumulation of wealth possible.

People participate in this open market because of their own self – interested desire to get the best return for their labor by selling at the biggest price. But they also exchange because of an inborn human nature to "truck, batter, and exchange one thing for another". They do not stop exchanging when they have simply fed and clothed themselves. People also seek to accumulate riches because of their vanity and desire to be admired (to share in the positive sympathetic feelings of others) and also because people "naturally" love order, harmony, and design. They seek wealth because it satisfies their "love of system, the … beauty of order, or art and contrivance". Smith's human being is selfish because of essentially positive natural impulses to make order in the world. These desires need to be cultivated through education and civilization and are hindered and restrained by politics, corruption, guilds, corporations, and organized religion, to the detriment of society as a whole.

From this philosophical foundation, Smith builds a powerful argument that the individual's self-interest generates the society's best interests. The more competition, the more production, exchange, and accumulation. Each person's struggle to get the most value balances everyone else's. competition keeps down prices, costs of production, profits, and interest rates, and it controls the abuses of monopolies. When governments and guilds and other organizations intervene to regulate and control prices, trade, and markets, they impede the working of the marketplace and retard the greater good. The key element of Smith's argument is that human individual self-interest, working through the market system, produces the greatest possible good for the nation as a whole. In this calculus, there is no essential or inherent natural conflict between the individual's and society's best interests, as long as free individuals are educated and enlightened to act in rational ways.

The effect of Smith's calculus is to move moral issues (What is fair? How should government promote common welfare?) into the realm of logic, rationality, education, and science. Beginning with a rational individual motivated by positive natural impulses, he undertakes a series of dramatic political attacks on monopolists, corrupt governments, tariffs promoted by strong business lobbyists, guilds, colonialists, and 'the capricious ambitions of kings and ministers".

In Smith’s economics, the central problem is the relationship of the individual to society. His theory was suited to a time when there was a huge growth in trade, a long series of wars over trade routes and the sources of raw material, and an active debate about the role of the government in people’s lives. The degree of official intervention in the European economy during his lifetime would shock most people today. In France, for example, a huge and corrupt bureaucracy set prices for almost all goods, charged multiple tolls and tariffs on even short journeys, and required a license or concession (and usually a bribe) for every industry, from those that made pins to people hunting truffles. But Smith also lived before the worst consequences of industrial capitalism and colonialism were inflicted on millions of people in factories and fields, so he never saw mass suffering or poverty being justified in terms of the “Free market.”

Smith is an enduring figure because the same public issues and problems are still with us, and the debates that the opened are still going on. The clear linkage that Smith established between self-interested human nature and the conduct of public economic life is still the basis of the discipline of economics even as Smith’s successors have drawn the discipline further away from issues of morality, following his lead in their efforts to create a “calculus of fact. “As we shall see below, despite the best efforts of economists, those same issues of morality and human motivations keep popping up everywhere.

2) **DAVID RICARDO**

After Adam Smith, the next great ancestor figure of economics was David Ricardo, a successful British financier and member of parliament (1772 – 1823). He continued to place the concept of value at the foundation of economics. Value was the 'atom" in a Newtonian-style system of economic mechanics. The pillars that he built upon that foundation are a series of assumptions, the basis of an economic universe in which human actions can be predicted. These are the basic rules within which all economic behavior takes place. We assume that (1) most property is privately owned, (2) labor time is the ultimate source of value, (3) economic actors have freedom of choice, (4) the economic human is a rational maximize of economic gain (the utilitarian principle), and (5) all things being equal equilibrium is the natural state of the economy. Equilibrium is a key concept in Ricardian economics, for it represents an ideal state of balance between supply and demand, values and prices, input and output. Equilibrium is the "natural" state of an economy that is allowed to operate without interference. The idea of equilibrium rests ultimately on the belief that there are natural laws of the economy that are just like the natural laws of physics.

Ricardo saw all these assumptions as "natural" states of being (not descriptions of the real world) and viewed his deductions as scientific statements of mechanical laws, but we can see his axioms as social philosophy. They describe a set of values about the way things should be. But by stating these principles as plausible law like generalities of human behavior, Ricardo tucked the moral philosophy away under the cover of fact. The question was no longer, "what is human nature?" now it was, "making these assumptions about human nature, can we make some accurate predictions and guide policy?" and certainly, his work on the laws of wages and on comparative advantage in international trade proved extremely useful in understanding economic history and changes in prices over time.

The economic historian Karl Priban said that the fact that Ricardo invented a theory of economic equilibrium during the incredible dislocations of the industrial Revolution proves that “the development of economic reasoning is to a high degree independent of the actual course of economic events.” But it is also possible that Ricardo’s theories were a very direct reaction to the world but that he sought a theory of order and equilibrium as a form of consolation and a source of hope in turbulent times. It may be that theories of reason and order are most needed in times of upheaval.

3) **THOMAS ROBERT MALTHUS**

Thomas Robert Malthus (1766 – 1834) was a friend of Ricardo’s, and he applied the economic calculus to a different problem, that of the balance of population and resources. In his essay on Population (1798), he wrote that war, famine, and disease were the product of geometric population growth overshooting arithmetic growth in food resources. War, sickness, and starvation would therefore level off the population, producing a kind of equilibrium. Here again is a model based on human rationality, on a utilitarian assumption that people will keep having more children because it is to their own benefit, though it hurts society as a whole. Reasoning mathematically from these first premises reveals a “natural” equilibrium. The goal is to find natural order beneath the chaos of human history.

Older histories of economics often make the direction set by Ricardo toward a deductive scientific economics base on the utilitarian mechanism seem inevitable. They present only a logical progression of ideas toward perfection through the scientific method. But more recent histories of science point to the ways in which economics was very much a product of its times and of dominant Western culture. Even within the European traditions, there were other Kinds of economics.

4) **GERMAN HISTORICISTS**

In a more subtle and sympathetic reading of the German tradition, Joel Kahn (1990) has argued that nineteenth-century historical economists were the intellectual ancestors of modern interpretive anthropology. Some of the German historicists, such as William Roscher, thought that all people had two basic instincts, one self-interested and the other moral and ethical. Others, for instance, Kari Bucher and Friedrich List, thought human beings had no innate nature, that they were products of their particular historical and national contexts. They emphasized understanding economic behavior within the social fabric of each particular setting and built historical and evolutionary typologies. In general, they were much more sympathetic to government intervention in economic affairs than the British, for they had little faith in the wisdom of industrialists and capitalists who were out to pursue their own interests.

While smith and Ricardo were "boosters" for industry and trade, the German historicists were more conservative and liked to think back to an idealize economy base on agriculture, in an era of peace and stability (that was largely imaginary). Like Malinowski, their critique of utilitarianism was grounded in a dislike of capitalism, commercialism, and consumerism; instead, they loved the peasantry, the old traditional moral values, and the little community. They idealized national spirit and argued that economics was only a reflection of the folk tradition of the fatherland. The other major alternative to Adam Smith's utilitarianism also grew out of this German romantic tradition: Marxism.

2.2. Social Embeddedness of Economic Actions

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 ***Mark 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 (1990) suggest that to remedy this lacuna, one should not only talk of "structural embeddedness," but also of "political," "cultural" and "cognitive" embeddedness."

2.3. Culture, Networks and Social Capital/Trust and Efforts and Motivations

Much of the literature on networks emphasizes that they are most salient in a domain between the flexibility of markets and the visible hand of organizational authority (Powell 1990). Networks provide order to disconnected parts of organizations and markets (Burt 2000). The challenge for research on networks is to explain their emergence, activation, and durability. Networks, as Mark Granovetter (1985, 491) emphasized, "penetrate irregularly and in different degrees." Thus some individuals are better placed than others, some groups are more isolated, some formal organizations have more informal cliques, and some communities have more associational life. There is wide variability in the presence of linkages across multiple levels, and in when these connections are mobilized. \

The empirical terrain covered in the economic sociology literature ranges widely, including the following analyses of how networks influence economic activity.

1. Networks represent informal relationships in the workplace and labor market that shape work-related outcomes. Social ties and economic exchange can be deeply interwoven, such that purposive activity becomes “entangled” with friendship, reputation, and trust.
2. Networks are formal exchanges, either in the form of asset pooling or resource provision, between two or more parties that entail ongoing interaction in order to derive value from the exchange. These more formal network relationships may be forged out of mutual need, but can also lead to interdependence and repeated interactions that reduce the need for formal control.
3. Networks are a relational form of governance in which authority is broadly dispersed; such arrangements are more commonly associated with settings where both markets and environments change frequently and there is a premium on adaptability. Much of the literature has celebrated this flexibility, but it is important to recognize that this form of organizing can be found in an entrepreneurial firm, a terrorist cell, an organization with extensive use of cross-functional groups, an international company with many cross-border alliances, or an illegal drug cartel. The flexibility of networks can be tapped for good or detriment.

While network analysis started in anthropology and sociology, employing qualitative methods and local community studies, in the last few decades, quantitative methods have made strong advances in network research. In some disciplines like physics, large scale analysis has become the predominant method. However, even to day, qualitative studies remain a useful and valuable field for social network research, ranging from anthropology to conversation and discourse analysis and other applications. In addition, historians increasingly refer to network concepts (see for example Rota 2007, Laird 2006).

All processes of innovation and the diffusion of innovation are highly dependent upon communicative acts of people belonging to different networks sharing and providing information through different media (Rogers 2003). Whether related to the innovation of production systems in diverse commercial fields, or to customers and their consumer behavior and social lifestyles, all hierarchies of preferences are crystallized in and through networks and constructed by opinion leaders. Networks are always the media holding (diverse) knowledge and the media through which that knowledge is modified. One of the most intriguing questions is whether the way networks function has changed over time. Due to the increased prevalence of modern electronic communication systems, we not only have electronic markets but also new forms of private exchange through the internet or cell phone (Wellman and Haythornthwaite 2002).

Networks serve as “sets” of preferences and social contacts between individual agents and groups of people. The bloodstream of society runs through networks. Whereas many writers treat the functioning of markets as something close to a black box, in which offer and demand equalize somehow, network analysis sheds far more light on the processes and informs us of how economic dynamics are often based upon social dynamics in which personal experiences and trust play important roles. Markets as well as many other institutions provide resources to human actors through different levels of inclusion, which function through principles of social networks (Burt and Talmud 1993). That the status of social network analysis remains unresolved and weak (the theory versus method debate) implies that there is room for further input here.

2.4. From Social Network Analysis to Social Capital

Discussion of social network analysis often elicits mention of the term social capital, as if both terms are interchangeable. Therefore, it seems appropriate to answer the question "What is the relationship between social networks and social capital?" The answer is very simple, social networks can serve as social capital for individuals or groups of people. Sets of specific networks, which one actor has compared to those of another actor, may be understood and used as a kind of economic resource.

Even the debate on social capital is marked by a long history of ideas going back to early neighborhood and community studies, starting in the middle of the Twentieth century. However, the works of Bourdieu (1983) and Coleman (1988, 1990) addressed social capital more specifically and conceptually. Addressing "capital as power" (Nitzan and Bichler 2009), Bourdieu (1983) is primarily interested in inquiring of the analytical position of social resources and strategies in the context of economy and society.

Bourdieu (1983) distinguishes between economic capital, which he interprets in a classic sense as material and financial capital and assets, cultural capital, which includes an interpretation of human capital, and which can be further split into subsections, and, finally, social capital. Individuals or collectives own different amounts of capital consisting of different compositions of the three sources of capital. Social capital is interpreted as the volume of social resources of a person's networks. Finally, capital of one sort can partly be instrumentalized to realize capital profits of another sort. Bourdieu's perspective left behind a narrow social network perspective and started focusing on the more principal issues of order and restructuring of complex societies and their social inequalities.

According to (Coleman 1990), *"Social capital, in turn, is created when the relations between people change in ways that facilitate action. Physical capital is wholly tangible, being embodied in observable material form; human capital is less tangible, being embodied in the skills and knowledge acquired by an individual; social capital is even less tangible, for it is mbodied in the relations between people. Physical capital and human capital facilitate productive activity, and social capital does so as well"* (Coleman 1990, p. 304).

Coleman (1990) does not restrict social capital to resources based upon social networks, but includes in his definition institutional interpretations as well. Those include family structures, societal forms of trustworthiness, systems of production and regulation, religion, education and language. All these dimensions differ between and within societies and generate different levels of social capital.

Section Three: Approaches to Economic Sociology

3.1. Classical Economic Sociology and Its Predecessors

3.1.1. General Overview

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. 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. The role of labor in society is emphasized in the work of Saint Simon (1760–1825), who also helped to popularize the term *industrialism*. That the work of Alexis de Tocqueville (1805–1859) is full of sharp, sociological observations is something that most sociologists would agree on. The fact that he also made contributions to economic sociology is, however, less known.

1) **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. 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 subjective 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. 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. 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". 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 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". 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. 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.

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.

2) **<u>MAX WEBER</u>**

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. The fact that he had worked as a professor of economics was no doubt helpful in the se 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 c apitalism. Weber drew heavily on the theoretical work on interests of his time a nd extended that line of work by making it more sociological.

Weber's academic training was broad in nature, and its main emphasis was on l aw, 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. 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* (1920–2 1) and *Economy and Society* (1922). The f ormer contains a revised version *The Protestant Ethic,* "The Protestant Sects and the Spirit of Capitalism" (1904–5; revised 1920) and voluminous writings on the e conomic ethics of the Chinese, Indian, and Judaic world religions and a few ot her texts. According to Weber, the material in *Collected Essays* concerns m ainly 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 v iews on economic sociology. In this work he argued that the science of e conomics should be broad and umbrella-like. It should include not only e conomic theory but also economic history and economic sociology. Weber also pr oposes that economic analysis should cover not only "economic phenomena" but also "economically relevant phenomena" and "economically conditioned phenomena". 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. 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".

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". 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". 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 imp ortance 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. 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. In socalled 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.

3) **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. 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'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 b elief, held by Herbert Spencer, that a society can function if all individuals simply follow their private interests and contract accordingly. 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".

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 p articular to the general interest is the very well-spring of all moral activity". U nless 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*. 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. The point is not that economists used an analytical or abstract approach, Durkheim emphasized, but that they had selected the wrong abstractions.

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". Durkheim referred to this as "the ideological tendency of economics". 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. 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". 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". 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.

4) **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.)

Another key proposition is that economic interests, like other interests, can take a number of different social expressions. *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. 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. 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". Money is also surrounded by various "economically important sentiments," such as "hope and fear, desire and anxiety". And without trust, Simmel argues, society could simply not exist; and " in the same way, money transactions would collapse without trust". 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*, 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 observa tions 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. All three produced their most important works while in the United States, but had roots in European social thought.

1) **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. Vilfredo Pareto (1848–1923) is famous for his sociological analyses of rentiers versus speculators, business cycles, and much more. 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. 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" .

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 d ecades 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." Schum peter defines economic sociology as the study of institutions, within which economic b ehavior takes place.

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 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 c apitalism is intact but its institutional structure is weak and damaged, making it likely that socialism will soon replace it. On this point Schumpeter was evi dently wrong. His analysis of the forces that are undermining capitalism may see m idiosyncratic at times. Nonetheless, Schumpeter should be given credit for suggesting that the behavior of intellectuals, the structure of the modern fam ily, and so on, do affect capitalism. Of special importance are his insights ab out economic change or, as Schumpeter phrased it with his usual stylistic flai r, "creative destruction."

Entrepreneurship is at the heart of Schumpeter's treatment of economic change. 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.

2) **<u>KARL POLANYI</u>**

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. 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 illfated 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 s ocieties, 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".

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,* and especially in Polanyi's essay "The Economy as Instituted Process". 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. To the formal concept of economics Polanyi counter poses 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". While the notion of economic interest is directly linked to "the livelihood of man" in substantive economics, it is only an artificial construction i n formal economics.

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".

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. 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.

3) **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 i n 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.

3.2. New Economic Sociology and Organization Theory

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 such as dependency theory, world systems theory, and neo-Marxist analyses of the workplace.

In the early 1980s, a few studies suggested a new stirring of interest. 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. 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.

Subsequently, 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. 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.

Section Four: The Sociology of Markets

The Sociology of Markets is a subfield of sociology that attempts to understand the origins, operations and dynamics of markets as social structures. The field has been one of the most vibrant fields in sociology in the past 20 years. Up until 2006, one of the seminal pieces in the field, Mark Granovetter's *Economic Action and Social Structures: The Problem of Embeddedness* (1985) has been cited over 2,500 times since its publication, making it the most cited paper in sociology in the post war era. Moreover, in its attempt to explain the nature of markets, literature in the sociology of markets has often been divided into three groups of theory: Institutional theory, network theory, and performativity theory.

4.1. INSTITUTIONAL THEORY

Institutional theory attends to the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior. It inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. Although the ostensible subject is stability and order in social life, students of institutions must perforce attend not just to consensus and conformity but to conflict and change in social structures.

The roots of institutional theory run richly through the formative years of the social sciences, enlisting and incorporating the creative insights of scholars ranging from Marx and Weber to Cooley and Mead. Much of this work, carried out at the end of the nineteenth and beginning of the twentieth centuries, was s ubmerged under the onslaught of neoclassical theory in economics, behavioralism in political science, and positivism in sociology, but has experienced a remarkable renaissance in our own time.

Contemporary institutional theory has captured the attention of a wide range of scholars across the social sciences and is employed to examine systems ranging from micro interpersonal interactions to macro global frameworks. Although the presence of institutional scholars in many disciplines provides important opportunities for exchange and cross-fertilization, an astonishing variety of approaches and sometime conflicting assumptions limits scholarly discourse.

4.2. ACTOR-NETWORK THEORY

A *Network* is a concrete (measurable) pattern of relationships among entities in a social space. Examples could be:

1. Social networks among individuals: friendship, advice-seeking, romantic connections, acquaintanceship.
2. "Formal," contractual relationships among organizations: strategic alliances, buyer-supplier contracts, joint ventures etc.
3. "Informal" inter-organizational relationships flow through people: director interlocks, employee mobility, social networks that cross organizational boundaries.
4. Affiliations, shared memberships that suggest connections: trade associations, committee memberships, co-authorships, etc.

Some networks and mechanisms admit more strategic manipulation than others. Networks offer benefits but relationships can also carry social obligations that bind and sources of influence that blind. There are three key mechanisms through which networks operate:

1. Resource and information channels. “Network Pipes”
2. Status signaling and certification. “Network Prisms”
3. Social influence. Network “Peeps”

Moreover, the ten big claims in network theory are:

1. Networks create social capital for individuals and communities.
2. Networks create status and category differences in markets.
3. Network forms of organization are an alternative to markets and hierarchies.
4. Networks are the defining feature of “innovative regions”.
5. Networks are the locus of innovation in high-technology industries.
6. Networks create trust and increase forbearance.
7. Networks inspire conformity in thought and action.
8. Networks shape the diffusion of technologies and organizational practices.
9. Networks create individual tastes and preferences.
10. Networks ‘embed’ transactions in a social matrix, creating markets.

4.3. PERFORMATIVITY THEORY

Economic sociologists have recently been arguing about whether it makes sense to think of the discipline of economics as performative. The performativity thesis is that economics produces a body of formal models and transportable techniques that, when carried out into the world by its professionals and popularizers, reformats and reorganizes the phenomena the models purport to d escribe. This is a suggestive idea, and one that admits of stronger and weaker interpretations. In its strongest form, the performative process brings the empirical phenomena into line with the original model.

Of particular interest in this approach is the focus—inherited from science studies—on how performative projects are accomplished by way of practical technologies, reproducible models and portable algorithms. The success of economics is not just a matter of a particular conception of rationality serving as a ceremonial gloss on social action; nor is it a simple instance of ideological indoctrination. Rather, tools implementing formal models of action "calculative devices"—are put in the hands of social agents by the model builders or their representatives. These devices act as "cognitive prostheses" that enable actors to accomplish calculative tasks previously beyond their reach, but which are required by the theoretical models. When incorporated into the everyday work of market agents, these devices allow real settings to better approximate the original models, and their assumptions. This is the "performative loop" in its most interesting, so-called "Barnesian" form.

Mark Granovetter argued that a social theory of markets should begin with a view of actors as embedded in an evolving structure of concrete social relations. From this perspective, neoclassical economics is fundamentally misconceived, either because "the fact that actors may have social relations with one another has been treated, if at all, as a frictional drag that impedes competitive markets," or because, when they are examined, models "invariably abstract away from the history of relations and their position with respect to other relations". The strong version of the performativity thesis, by contrast, is a kind of backhanded compliment from sociology to economics. Complimentary because it acknowledges the success of economics in prosecuting its claims to objective knowledge of the economy, but backhanded because it claims that this success is not what it seems. Economics turns out to create rather than discover its subject matter. This idea has a beguiling appeal to sociologists. If the story is right, then it seems that sociology, the politically and institutionally weaker field, wins out over economics in the end. The natives' account—something like, "these models work because they are correct, or very good approximations to the truth"—is shown to be wrong, and the sociological account ends up encapsulating and explaining the success of the economic one.

There are three major kinds of performativity: "generic," "effective" and "Barnesian" (together with the latter's negative complement, "counter performativity"). Generic performativity means the active use of some bit of theory not just by economists but also by economic agents, policy makers and the like. Effective performativity requires that the use of theory not just be window- d ressing: it must "make a difference" in practice. Barnesian performativity (named for Ba rnes.) requires that the use of economics actively alter processes "in ways that bear on their conformity to the aspect of economics in question." That is, the model or theory must bring participants into line with its picture of the world.

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