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INTRODUCTION:
THE SOCIOLOGY OF THE ECONOMY*Frank Dobbin*

IN RECENT years, sociologists have returned to study the field's first subject, economic behavior. Beginning in the 1840s, Karl Marx tried to understand the economic underpinnings of class relations and political activity. Forty years later, Émile Durkheim explored how work was divided up in modern societies and the implications for occupational behavior. By the end of the nineteenth century, Max Weber was concerned with understanding the origins of economic institutions and behavior patterns. Then, between about 1920 and 1980, sociologists turned away from the study of economic behavior per se. They studied economic institutions, such as firms and unions, but they tended not to study economic behavior in those institutions.

Since about 1980, sociologists have flocked back to the subject of economic behavior, bringing the tools they had developed to study other kinds of behavior. They had been asking why behavior varies so dramatically across societies but less so within them. Why are religious patterns, childbearing patterns, and voting patterns so regular within each society, yet so variable across different societies? Sociologists had traced behavior in these different realms to social conventions, and they came to believe that economic conventions are much like family or religious conventions. Conventions vary dramatically between Budapest and Seoul, but within Budapest, conventions tend to be quite pervasive and powerful.

Sociologists therefore began to argue that their theories explaining patterns of political, religious, and family behavior could explain economic behavior. Like families, polities, and religions, markets are social structures, with conventions and roles and conflicts (Fligstein 2001). The realization that modern, capitalist societies exhibit widely different patterns of economic behavior stimulated sociologists to treat economic conventions like other types of conventions, and this realization came about in part with the increasing awareness that East Asia provides a model of modernity different from the

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model that Europeans and North Americans were used to—or perhaps several different models. This new treatment of economic conventions was also fueled by the insight that despite their similarities, the economies of the United States, Germany, France, Sweden, and Britain are different in systematic and persistent ways. If such different kinds of economies can achieve high growth rates, sociologists reasoned, then economic behavior must be driven by more than narrow economic laws that determine what is efficient. Social processes must explain much of the variation in economic behavior.

This volume brings together the work of some of the most innovative and influential sociologists studying the economy. Each of the chapters tackles a pattern of economic behavior and tries to explain it using one or several of the conceptual tools honed by sociologists. Taken together, the chapters show not only the astonishing vitality of empirical research in the field of economic sociology but the remarkable explanatory power of sociological models.

The human species is a highly social one, and our behavior is shaped systematically by social context. By contrast, instinct explains the lion's share of behavior in other species. Even among other primates, such as gorillas, while there is good evidence that different "tribes" have different "cultures," most observable behavior is virtually identical across groups that have never come into contact. The same can hardly be said for humans. Across societies, the most basic human tasks are highly stylized—shaped by culture as much as by instinct, or by some interaction between instinct and culture. Food-gathering looks very different in different societies. Shelter-building looks very different. More arcane activities, such as stock trading and insurance peddling, look quite different as well. This variety raises the question: how exactly does social context shape economic behavior? This volume showcases the insights that are emerging in the new economic sociology.

Modern markets are social structures that consist of roles, conventions, and power struggles. The telecommunications market is thus analogous to the Lutheran Church, or to the Detroit school system. Sociologists have approached explaining the social structures and conventions found in markets much as they approach explaining structures and conventions in a church or a school system. Common sense tells us that that markets and economic conventions are shaped by economic laws. Sociologists find that concrete social processes matter too.

The authors in this volume use several classical sociological approaches to understand economic behavior. These different approaches do not represent competing theories of economic conventions and markets so much as different parts of the puzzle. If economic conventions vary significantly across societies and over time, where do they come from, and what leads them to change? The authors focus on four factors in particular that contribute to the shaping and evolution of economic conventions—political institutions, economic models, networks, and ideas—and attempt to answer these questions

by combining the factors in different ways. Each chapter builds on fundamental sociological insights and demonstrates the utility of a sociological view of the economy. Although the chapters are divided into four parts based on the core mechanism at work, most explore several mechanisms at once.

How Political Institutions Shape Markets

Sociologists have long argued that political institutions shape markets. Common sense tells us that nations' political institutions converge on the policies that best support natural market mechanisms—that is, markets come first and political institutions evolve to support their natural form. Adam Smith (1776/1970) contributed to this view, insisting that universal economic laws force governments to adopt the same policies everywhere. Countries that adopt policies that are incompatible with economic laws will falter and change their ways. Ultimately, primordial markets shape politics, not vice versa. Smith believed that nations can “get it wrong”—that they can adopt growth policies and political institutions that impede economic growth. But he also believed that countries that “get it right” come to look the same.

Sociological studies, however, have suggested that political institutions create different sorts of markets in different countries. Karl Marx saw markets and economic conventions as being shaped by power, operating through political institutions. He also saw that modern societies can produce wealth in any number of different ways because economic laws are broad, permitting many kinds of markets and economic conventions to succeed. Political institutions can shape markets by making the state capable, or incapable, of pursuing particular policies; by favoring capitalists, or bureaucrats, in regulatory decision-making; and by creating models for corporate behavior.

Karl Marx and Max Weber cataloged the different varieties of feudalism and capitalism, recognizing that capitalism takes different forms based on different logics of accumulation. Studies of the most developed countries suggest that political institutions shape markets. Markets take myriad forms, and the insight that political institutions shape them is hardly unique to sociology. Political scientists have produced a series of comparative studies of capitalism (for reviews, see Hall and Taylor 1996; Thelen and Steinmo 1992; Campbell 1998). In the jargon of institutional economists, “property rights” regimes advantage different kinds of firms and different kinds of market arrangements (see, for example, North 1990; Greif 1993; Williamson 1975).

Students of economic history have made the same point. Alfred Chandler (1990) shows that political institutions forged national market structures, with Germany organized around strong cartels, Britain around insulated family-held firms, and the United States around diffuse stock ownership and oligopolies. Colleen Dunlavy (forthcoming) shows that political systems had produced

different corporate governance systems in Britain, France, the United States, and the German states by the middle of the nineteenth century. Scholars from many camps have been interested in how political institutions shape markets. What distinguishes the sociological view is an emphasis on the relationship between political institutions, collective perceptions of the world—“frames,” in Erving Goffman’s (1974) term—and market behavior. What stabilizes nations’ market arrangements, from the perspective of sociologists, is not merely the ongoing incentives that political institutions create but the ongoing ideas of causality that they represent. In my own research (Dobbin 1994), I have shown that political institutions produced very different ideas of economic efficiency in Britain, the United States, and France, centering on entrepreneurialism, market mechanisms, and industrial coordination, respectively. These ideas survived because they were written into industrial policy.

Chapters 2 through 4 of this volume explore how political institutions shape the economy. The commonsense view is that economies evolve according to their own rules and that they naturally become more efficient over time. The shorthand for this idea is that “history is efficient,” meaning that markets and economic institutions evolve toward more efficient forms. Changes in an economic system are generally viewed as mutations that increase that system’s efficiency. But analyses of the forces that shape markets and economic institutions *across countries* almost always identify political institutions as a principal cause of changes in economic systems, and they almost always find that changes do not necessarily improve efficiency.

Charles Perrow’s chapter on the rise of oligopolistic enterprises in the United States and Bai Gao’s chapter on the rise of business groups and cartels in Japan examine how *domestic political institutions* give nations distinct economic institutions and market forms. In the United States, a weak state that was politically porous enabled early capitalists to set the ground rules for business, and they set rules that favored huge firms. In Japan, an administratively strong state that was politically independent made it possible for state bureaucrats to effect their own vision of how the modern economy should be organized, which was through business associations.

Chapter 2 reprises the story from Perrow’s book *Organizing America: Wealth, Power, and the Origins of Corporate Capitalism* (2002). Why did huge corporations dominate the American economy by the early twentieth century, a time when America’s closest peers, England and Germany, still had relatively small firms? The United States saw the growth of huge firms even in industries where economies of scale could not be achieved. Power and political institutions, Perrow argues, were the ultimate causes.

In Perrow’s story, a state structure that was designed to prevent government tyranny had the unintended consequence of permitting the fox to regulate the chicken coop. With no tradition of a crown exercising control over the elite—as most European states had—and with a strong constitutional mandate

to maximize individual freedom, the American government was easily persuaded to go along with powerful proto-capitalists, who thus determined the laws by which they lived. Capitalists sought to shape government regulation to their taste in all countries, but not everywhere did they succeed. In 1819 in the United States, however, the Supreme Court changed the nature of incorporation, allowing the incorporation not only of “public” endeavors with public board members but of private endeavors with no public representation. Private corporations thus came to enjoy advantages designed for public-service corporations. Soon thereafter, Robert Lowell brought the “corporate company” model from Britain, where diffuse stockholding permitted corporations to amass the capital needed for huge enterprises.

Perrow argues that in textiles and elsewhere it was not economies of scale that led to consolidation but regulations that favored big corporations. The huge textile mills of Lowell, Massachusetts, were no more efficient than Philadelphia’s smaller and more entrepreneurial mills, but they were favored by the law. Economies of scale may have motivated mergers in some industries, but in many others large firms had no advantages over small ones. Big corporations had legal advantages—especially limited liability—that small private firms lacked, and regulation did nothing to prevent huge companies from gobbling up their smaller competitors. The law thus helped to quash an equally practical model of efficiency: entrepreneurial capitalism.

Perrow argues that political institutions allowed the powerful to shape regulation to their own advantage so that it favored big corporations and did nothing to stem consolidation. Americans distrusted the huge firms that resulted, but they came to believe that “economies of scale,” rather than political institutions and power, had ultimately produced them. This belief sustained large firms, which were seen as a natural consequence of an economic precept rather than an unintended consequence of America’s peculiar political institutions.

In chapter 3, Bai Gao turns the sights of economic sociology on the associational economic order that arose in the interwar years and became Japan’s claim to fame after World War II. The Japanese “business group” model contrasts sharply with the American model of huge firms operating under antitrust laws. How did political institutions facilitate the rise of Japan’s interindustry business groups and intraindustry cartels? In the American case, Perrow traces the rise of the large oligopolistic firm to the administrative weakness and political porousness of the American state, which allowed capitalists with grand plans to steer public policy. Gao shows that the rise of intraindustry associations and interindustry business groups in Japan was also in part a consequence of political institutions—or the “constitutional order of the state.” In Japan the state was organized to give much greater power to public bureaucrats. They chose how industry would be structured, and they chose an associational economy based on their perceptions of what had made Germany prosper.

Japan's state was modeled on Continental states that operated under administrative law, rather than common law, meaning that the executive rather than the judicial branch had the final authority to interpret and carry out the law. This structure made for strong state bureaucrats who were capable of carrying out their ideas about how the economy should be organized. In Japan state bureaucrats favored the system of business associations that Germany had embraced, and Japan's constitutional order closely resembled Germany's: the Japanese state's administrative competencies were similar to Germany's, and Japanese bureaucrats, like their German counterparts, had the wherewithal to implement their vision of how the modern economy should be set up.

Japan's associational order got its break during the Great Depression, and a comparison with the United States shows how important state institutions were at that time. Both Japan and the United States reacted to the Great Depression by trying to create greater cooperation among firms. The New Deal in the United States was designed to create cooperative cartels in a wide range of industries that would shield firms from destructive competition. The policy failed, however, because in the United States the state lacked the administrative capacity to carry it out (Skocpol and Finegold 1982). Japan also pursued an associational industrial policy, but in Japan the policy took hold and brought about a stable set of business associations. With nearly identical policy goals, two countries with very different sorts of political institutions ended up in very different places. In the civil law tradition, the Japanese state was neither administratively weak nor politically porous. Japan succeeded in creating an economy organized around business cooperation because its administrative corps had the power and resources to carry out its will, and also because the business community had come to expect that the state would assume this role. The associations that Japan put into place have shaped the economy ever since. What is fascinating in Gao's account is that, like their American counterparts, Japanese capitalists accepted the market order that emerged as natural and efficient, and their acceptance has been the key to its persistence.

In chapter 4, Richard Swedberg asks how *international political institutions* cause similarities in national political institutions. Like Perrow and Gao, Swedberg argues that national institutions determine the "property rights," or rules of economic exchange, that shape market behavior. This is true everywhere. What is interesting about the core property rights that govern most countries today is that they stem from a common set of international rules formed at a time when modern nation-states were just emerging. If *domestic* political institutions determine the differences in national markets, as Perrow and Gao argue, *international* political institutions determine many of the commonalities among markets across nations. This insight challenges Adam Smith's view that if nations have similar market traits it is because universal economic laws drive them to adopt identical institutions. Swedberg suggests

that Western nation-states copied their economic regulations from the same place.

Swedberg argues that legal institutions are not well theorized by the law-and-economics paradigm that now dominates legal scholarship and that a more sociological understanding of how law shapes ongoing economic behavior is needed. Building on one of Weber's insights about the historical emergence of commercial institutions, he shows the utility of that insight today. The common commercial laws that emerged in Europe were based on the *lex mercatoria*—these were the rules of the “law merchants” who regulated commercial relations before a systematic order of commercial regulations had emerged among nascent states. Merchant markets established courts that heard cases and developed a sort of common law of market exchange that still serves as the foundation of commercial transactions. It included such principles as acquisition in good faith overriding original ownership, the economic corporation being a legal entity, and symbolic delivery through contract replacing the actual transfer of goods. It included such institutions as patents and trademarks, the bond, the modern mortgage, and the bill of lading. The commercial regulations that are common to modern countries, then, took parallel forms not because they arose, *sui generis*, as the most efficient forms of commercial regulation, but because they had a common historical source. The old *lex mercatoria* shaped political institutions and thereby shaped modern thinking about property, inheritance, the contract, and the corporation as a legal person.

Here Swedberg's argument resonates with Karin Knorr Cetina and Urs Bruegger's in chapter 7 about the informal rules of conduct that emerge out of international currency trading. Those rules appear to derive from participants' common understanding of an overarching system, that of economic theory. In this case, national rules and property rights emerged out of an overarching transnational system, the traditions of merchants. Swedberg notes that in the international economy a new *lex mercatoria* has emerged since the 1960s based on consensual principles of exchange. There are new law merchants who regulate international exchanges for a fee and enact principles that often come from economic theorists themselves.

Swedberg makes a sort of mimicry argument, akin to those elaborated in the coming section, in tracing the origins of the modern accoutrements of market exchange. These principles and institutions actually predated modern states, and when modern states emerged, they embraced the economic *lingua franca* of the day. This version of the story of how the modern set of market institutions emerged is entirely different from the two commonsense versions: that countries have similar economic institutions because they follow universal economic laws, or that they need common institutions to do business with one another. Swedberg's chapter shows the potential of historical sociology. At a time when regional governing regimes, such as the European Union, and

international institutions, such as the World Bank, are putting pressure on countries to conform to a single regulatory model, Swedberg shows that international models have had important effects in the past. Neil Fligstein (2001) shows that economic globalization is not reshaping national markets and trade patterns as quickly as many expected it would, and this outcome suggests that the tension between the Perrow and Gao arguments on the importance of national institutions, on the one hand, and the Swedberg argument on the role of transnational political institutions, on the other, will continue to be where the action is.

How Economic Models Shape Markets

Another group of economic sociologists studies a supremely social form of behavior, mimicry. Early role theory in sociology suggested that we learn how to behave by copying those around us. Whether we copy our parents or our peers is a matter of some debate in developmental psychology, but we learn by copying in any event. The institutionalists John Meyer and Brian Rowan (1977) explored how organizations came to be isomorphic—that is, how, given the huge number of ways one *could* organize a school, all schools came to be organized in pretty much the same way. They found that organizations adopt rationalized practices ceremonially, reinforcing the myths of rationality that accompany those practices. If organizations look alike, it is not that they have identical needs and that each has discovered the one best way to fulfill those needs. They copy one another. When a group sets out to establish a bank or a hospital, it begins with a mental map of how a bank or hospital should be set up. The map itself comes from members' experiences with such organizations (Stinchcombe 1965; Baum 1996). Do the functions of a bank demand that banks be set up exactly as they are, with tellers and bank officers, counters and desks, loan departments and investment departments? Many of these structures arose historically for particular reasons having to do with power and politics and then persisted because new banks copy old ones. An important insight is that we read reason into existing economic conventions, reinforcing whatever economic models history has left us.

Economic models shape firms' behavior and market structure not only as new firms copy prevailing ways of doing business but also as existing firms follow fads that sweep across industry. Paul DiMaggio and Walter Powell (1983) term this process "mimetic isomorphism" and argue that although organizations try to identify efficient practices to copy, they seldom have hard evidence of whether the economic models they follow "work." The central idea is that we collectively make sense of organizational practices in rationalist terms—we see business practices and attribute efficacy to them. This process gives each of us a cultural tool kit full of canned solutions that we apply ritualistically when we encounter new situations. When we see new

business models in leading firms, we instinctually imbue them with efficiency. It is not that we would not adopt the most efficient solution to any given problem if we knew a priori what that solution was, but that “bounded rationality” (March and Simon 1958) hinders us. We follow habits and fads because our ability to choose the optimal solution to any problem is limited by our cognitive incapacity to envision the full set of alternative solutions and by the practical problem of subjecting each alternative to a cost-benefit analysis.

Whereas common sense tells us that entrepreneurs, corporations, and central banks behave similarly in Argentina and Italy because there is one best way to behave in each role, sociologists find that mimicry is often at work. William Roy (1997) shows that states and nations copied the limited liability legal model of the firm in the nineteenth century, leading firms everywhere to take the same broad form. Studies have found that all sorts of economic models have spread around the world through imitation. Just as Roy follows the limited liability corporation, Bruce Carruthers and Terence Halliday (forthcoming) look at bankruptcy reform, Marion Fourcade-Gourinchas and Sarah Babb (2002) at neoliberal policies, Gili Drori, Yong Suk Jang, and John Meyer (2000) at government restructuring, and Gerald Davis and Christopher Marquis (2001) at corporate governance. Countries have copied all kinds of things.

The three chapters in part 2 explore different aspects of the diffusion of economic models, from setting up foreign branches to embracing the hostile takeover to developing rules of behavior that mirror wider global economic models of markets. In chapter 5, Mark Mizruchi and Gerald Davis show that American banks established foreign offices in droves in the 1960s and early 1970s, then stopped. What explains the rise and fall of the fad? Firms copied the business models of industry leaders, even in the absence of evidence that those strategies succeeded. In a classic article entitled “Follow the Leader” (1993), Heather Haveman has shown that California banks followed leading banks into new product areas with all of the forethought of lemmings. They followed the leaders without looking into whether the leaders had made money in the new product areas.

Mizruchi and Davis show that banking leaders, including Citibank, argued that global expansion could broaden the American market, and before there was any evidence that foreign offices paid off, their competitors jumped on the bandwagon. Did banks calculate the costs and benefits of setting up branches in Paris, or did they do so because their rivals had them? It looks like social emulation, rather than rational calculation, was at work among America’s largest, most efficiency-oriented banks. The end of the fad came just as abruptly. After foreign market entries peaked in 1970, banks came to believe that participation in foreign markets was perilous, and they stopped branching out, long before the Third World debt crisis tarnished the idea of overseas loans. The fad came, then went, with surprising speed.

Some of the best evidence for Mizruchi and Davis's story about mimicry comes from their finding that network centrality—having a board of directors that is connected to other boards through cross-memberships—predicts the creation of foreign branches. It is through these networks of board members that firms learn what other firms are doing; in this case they learned that other banks and major bank customers were aggressively globalizing. Networks are as important to the story told here as they are to the stories told in part 3 on networks.

In chapter 6, William Schneper and Mauro Guillén explore the spread of hostile takeovers in thirty countries. Many studies have now shown that new economic conventions spread from country to country, but Schneper and Guillén's study is one of the first to look at the national factors that determine whether a country will jump on a new bandwagon. You might guess that the hostile takeover spread to all countries once it had been invented, around 1975 in the United States, because it solved problems of lax management by creating an efficient market for corporate control. Managers who were asleep at the wheel, or simply incompetent, were deposed during hostile takeovers and replaced by more efficient chiefs. Or so the story goes. But the hostile takeover did not take over everywhere. Schneper and Guillén show that hostile takeovers became common only in countries where existing institutional arrangements made the buying and selling of companies in a market "legitimate." For instance, in many developed, high-growth countries, stock trading is relatively rare because families or governments own major companies. In such places the idea of trading entire companies like baseball cards is not culturally acceptable and the hostile takeover never became common.

Schneper and Guillén provide compelling evidence that societal ideas about what is legitimate shape economic behavior, building directly on Guillén's influential book *Models of Management* (1994), which explores why three twentieth-century management paradigms spread unevenly across the United States, Britain, Germany, and Spain. In *Models*, Guillén finds that paradigms such as scientific management caught on only where they were culturally and politically acceptable. Not every country found the idea of the hostile takeover acceptable. In countries where the idea of the buying and selling of companies was not supported by tradition, the apparent efficiency of the practice was not enough to get it through the door. Building on a typology developed by W. Richard Scott (2001), Schneper and Guillén find that three sorts of factors were important. First, in countries where the state had given a *regulatory* nod to the buying and selling of companies—through legislation that put shareholder rights above those of labor and others—hostile takeovers were more likely to emerge. Second, in countries where there was *cognitive* acceptance of stock trading—that is, where the practice was highly institutionalized—hostile takeovers were more likely to emerge. Third, in countries where there was great *normative* legitimacy for private property, as evidenced

by high levels of cultural individualism and weak labor movements, hostile takeovers were more likely to emerge.

Thus, in the decade ending in 1998, the United States saw 431 hostile takeover bids and Britain saw 220, but Japan had only one hostile takeover, Germany had 5, Sweden had 12, and France had 20. Whether a country was amenable to the idea of buying and selling companies, then, affected whether this particular fad made any headway there. It was not simply that growth-oriented countries embraced hostile takeovers—all of the countries Schnepfer and Guillén observe were oriented to growth. Like the chapters in part 1, this chapter shows that political institutions shape market behavior. In chapters 2 and 3, Perrow and Gao look at how political institutions distribute power among capitalists and bureaucrats, and they explain industrial regulations and market structure as consequences. In this case, political institutions (industrial policies, stock trading rules) have shaped ideas about how the market for corporations should operate, and they have thereby mediated the spread of a new global economic model—the hostile takeover.

In chapter 7, Karin Knorr Cetina and Urs Bruegger chart the emergence of global trading norms among a community of currency traders who interact electronically and at lightning speed. This market had reached an average *daily* turnover of \$1.2 trillion by March 2001. How did this global market develop explicit conventions for conducting trading on computer screens—an etiquette of the trade? Knorr Cetina and Bruegger build on the symbolic interactionist, ethnomethodological, and phenomenological traditions in sociology. Their ethnographic analysis explores the informal rules governing the trade, which amount to the very rule structure of this market. Knorr Cetina and Bruegger find that despite the fact that the global currency market is virtual, disembodied, and geographically distributed, rules of etiquette emerge from interactions, just as they do in face-to-face communities.

The global currency market is a recent phenomenon, produced as nation-states have deliberately swept away trade and exchange barriers. It is globally dispersed, and buyers are also sellers. Building on Harrison White's (2002) insight that participants in a market tend to observe parallel participants for signals about how to behave (buyers watching buyers, sellers watching sellers), Knorr Cetina and Bruegger note that in this market the buyer-seller observes the emerging rules of trade from both sides of the transaction.

The rules of currency trading emerge out of a collective understanding of markets that reflects the modern *lex mercatoria*. Knorr Cetina and Bruegger identify a series of normative rules that have emerged to guide behavior in the global currency market. An offer to trade one currency for another must be neutral as to whether the trader is looking to buy or sell, and it must be accompanied by a buy price and a sell price so as not to bias the trade. Traders must stick by the offers they type and send, even when they make mistakes. Once a price is offered, it cannot be negotiated—there is no back-and-forth—and if

a trader does not like the deal another trader offers, he can only wait for a better offer. These norms are guided by the neoclassical notion of the spot market and how it ought to operate. Traders break these rules at their peril, for they risk ostracism from the trading community. This apparently self-regulating market is in fact regulated by its own set of unwritten rules based on a shared economic model of the market.

As in face-to-face communities, the emergent rules of interaction mirror wider principles of the social system. Two groups of sociologists who have studied face-to-face interactions (symbolic interactionists and ethnomethodologists) have found principles of hierarchy and of democracy mirrored in dyadic interactions. Knorr Cetina and Bruegger build on this idea: “Strategies mirror and sustain the interactional principles of global spheres.” What members of this international group of currency traders share is an understanding of the precepts of economic theory, and the informal rules of exchange they develop come to reflect and reinforce those precepts. This market thus comes to look like what economic theory suggests it should.

If Mizruchi and Davis in chapter 5 and Schnepfer and Guillén in chapter 6 look at how models of business behavior spread, across U.S. banks and across national stock markets, Knorr Cetina and Bruegger look at how a model of currency trading emerges and becomes institutionalized. In the case of the *lex mercatoria*, as Richard Swedberg describes it in chapter 4, the principles established by private merchant courts shaped the merchant regulations that individual countries established—that is, a transnational model shaped local market practices. Knorr Cetina and Bruegger show that global principles of market order have shaped how the virtual currency market is run as well.

How Networks Shape Markets

The French sociologist Émile Durkheim (1893/1933) argued that societies vary distinctly in the structure of their social connections. In premodern societies there are only one or two occupations—hunter-gatherer, witch-doctor—and thus people’s identities and interaction patterns are shaped by the fact that they live a common life. In modern societies with complex divisions of labor, people’s identities and interactions are shaped by their occupational groups. Occupational groups define how members should behave, and the groups themselves are interdependent and arrayed in a complex web of interactions. One identifies not with the people in the next hut or house, but with those with whom one shares a structural position. Members of occupational groups learn behavior from other members.

Firms, like individuals, are also embedded in ongoing social relationships, and these social relationships prevent them from acting as atomistic theories predict they will act. Firms depend on networks of other firms that

occupy similar structural positions, as well as myriad networks of firms that occupy different structural positions. Placement in these networks shapes behavior in a variety of different ways, via mimicry and power plays, for instance.

In 1985 Mark Granovetter published an article in the *American Journal of Sociology* that developed Karl Polanyi's (1944) observation that economic behavior is socially embedded, in the sense that it is situated in a web of social relationships. Granovetter's article became the touchstone of the network paradigm in economic sociology. Granovetter argues that in matters such as pricing, the conventional atomistic view of human economic behavior is wrongheaded. Individuals are not free-floating atoms who will as readily interact with one alter as with another, seeking the best price in every situation, the social consequences be damned. Granovetter uses transaction cost economics (Williamson 1975) as a foil. Transaction cost economics suggests that parts suppliers price-gouge when they have the chance and that parts buyers can prevent gouging only by buying the firms that supply them. Where market conditions are ripe for price-gouging, firms will buy the companies that sell them parts. Granovetter counters that social networks punish price-gouging by closing off the gouger from future transactions. In his example, norms against malfeasance enforced by social networks shape prices just as surely as do individual norms of self-interest.

The two chapters in part 3 build on the general insight that economic transactions are embedded in social relationships and that the social inevitably affects the economic. People do not behave as isolated atoms in economic exchanges and they do not treat all others identically. For instance, prices have long been a central concern of neoclassical economists, but economic sociologists have only recently begun to look at how social ties influence pricing to find that network ties affect how much people pay for stock, computer components, and bank loans (Baker 1984; Carruthers 1996; Uzzi 1999; Zuckerman 1999; and Bothner 2002). Networks shape pricing, economic alliances, and corporate vitality in contexts as different as the banking and textile industries in Renaissance Italy and the California savings and loan industry. We have already seen the importance of social networks in chapter 5 by Mizruchi and Davis, which documented how corporate board networks diffused the idea that banks should set up foreign branches.

Chapter 8 explores the role of networks in the early Florentine economy. Paul McLean and John Padgett show that the silk industry developed the same business model as the wool industry through its ties with bankers, who served both industries in Renaissance Florence. Most studies of the relationship between social life and economic life have been concerned with distinguishing sharply between the two spheres, then showing the unexpected influence of social life on economic life. McLean and Padgett reiterate a point that Talcott

Parsons and Neil Smelser (1956) made in their early treatise on economic sociology, and that Durkheim made before them, namely, that economic life cannot be disentangled from social life. Economic life, even in the disembodied virtual transactions that Knorr Cetina and Bruegger observe in chapter 7, is inherently social. It is not just that social networks *affect* economic networks, but that economic networks are impossible to separate from social networks. Because of this connection—which was taken for granted before the rise of the Western view that the economy is a distinct sphere (Meyer 1988)—we must view the marriage, banking, class, and entrepreneurial connections in Renaissance Florence (to many minds the birthplace of capitalism) as a single integrated network.

Evidence that social networks shaped Florentine economic practices comes in several forms. In one set of analyses, business partnerships and marriage partnerships showed striking parallels, reflecting the move from a traditional and locally based system to a modern and cosmopolitan system. In the wool industry, partnerships among elites tended to be based on shared location, whereas elite bankers deliberately partnered with bankers from other locales. These differences are reflected in marriage patterns: a local pattern of marriages prevailed among wool-making families and a more cosmopolitan pattern of marriages among banking families.

Network connections also altered core economic behavior patterns, in part by serving as the conduits for the kinds of new economic models discussed in chapters 5 and 6. Bankers had extralocal networks from their long ties to the wool industry, and when they began to sponsor the growing silk industry as the wool industry declined, they brought those networks of raw materials providers, on the input side, and purchasers of finished products, on the output side, to the silk manufacturers they financed. A result was that silk manufacturing came to look modern in the way that wool manufacturing did, with its input and output networks of wide geographical scope. McLean and Padgett add yet another insight about how economic models spread to the insights offered by Mizruchi and Davis in chapter 5 and by Schneper and Guillén in chapter 6.

In the second chapter on networks, Heather Haveman and Lisa Keister explore how location in an industry network influences a firm's prospects. Neoclassical economics and industrial organizations theory, a game-theoretic approach developed by economists for understanding strategic market behavior (Tirole 1988), focus on competition among firms and how it affects their prices and vitality. Competition generally reduces prices, making it harder for firms to prosper. Sociologists from several camps—institutionalists, network theorists, and population ecologists—show that competitors actually have more complicated effects on one another. Two firms in the same industry may compete for clients in a zero-sum game. But a firm's apparent competitors may have positive effects on it as well.

Population ecologists discovered that in the early years of an industry an increase in the number of competitors actually makes existing firms more likely to prosper. As the number of competitors grows, a nascent industry gains a stable clientele and legitimacy among investors, and these developments help incumbent firms, contrary to the conventional wisdom that firms suffer when competitors enter the fray. Ecologists have found that in a wide range of industries the initial growth in the number of competitors is good for incumbents (Baum 1996).

Haveman and Keister build on these insights by exploring how connections among firms in a mature industry may have positive effects on those firms. In a sample of California savings and loan banks, they find that when firms compete directly, offering exactly the same services as others nearby, their profits, growth, and chances for survival suffer. By contrast, when savings and loans are located near other savings and loans that offer different sorts of services, “mutualism” improves their profits, growth, and chances for survival. All else being equal, it is better to have lots of other savings and loans around—as long as they specialize in different services.

How can competition from other firms in the same industry, but with different specialties, help a firm? Where there are concentrations of firms in a particular industry, clients may visit one firm and be referred to another firm that better suits their needs. It may be that as savings and loans come to specialize in more and more services, customers will look to them to solve a wider range of problems. By advertising new, specialized services, savings and loans create more interest in the industry. Haveman and Keister’s findings provide striking evidence of a process that White (2002) and his colleagues have documented: firms seek to distinguish themselves from their nearby competitors so as to prevent head-to-head competition. Haveman and Keister show that when firms do this, by catering to customers with different needs and by drawing on different sets of environmental resources, they indeed do better.

Sociologists have argued that networks can serve as an alternative to bureaucracies, coordinating aspects of financing and production more flexibly and creatively than bureaucracies can (Powell 1990). The chapters in part 3 explore this aspect of networks by showing how they shape different sorts of economic behavior. In McLean and Padgett’s analysis, overlapping social and economic networks brought new ideas about both marriage patterns and trade patterns to early Florence. Like the chapters in part 2, McLean and Padgett’s chapter illuminates the role of new economic models, documenting the spread of a cosmopolitan model of trade through banking networks from wool to silk manufacturers. Haveman and Keister show that industry networks can have positive effects on firm performance and survival. When a new industry is emerging, each firm benefits from the establishment of other similar firms. But firms also reap advantages from being in a dense network of similar firms, as long as those firms do not offer exactly the same products.

How Economic Ideas Shape Markets

Max Weber (1905/1958), who is often described as the father of economic sociology, famously said that the spirit of capitalism was the offspring of the *ethic* of Protestantism. The religious ideas of the “calling” and of asceticism caused early Calvinists to act in ways that were good for capitalism: they devoted themselves to hard work and saving. A religious ethic thus influenced economic behavior. Students of modern ideas emphasize that there are many different notions of market rationality and that proponents of the different notions often slug it out in corporate offices or on regulatory boards. Thus, for instance, Fligstein (1990) shows that over time three different management groups have imposed successive ideas of corporate rationality, based in their own managerial traditions. As corporate reins have been taken by production managers, then marketing managers, then finance managers, they have brought a sequence of quite different notions of efficiency to the task. These different ideas produce corporate efficiency through different means, optimizing different functions of the firm. For students of ideas and markets, there is more than one way to skin most cats, and ideas about efficiency often determine which way is chosen.

Economic sociologists find that ideas shape economic conventions and are shaped by them. We derive ideas from economic practices, attributing efficacy to the practices we encounter. When we see competition among firms, we associate it with efficiency and then use the principle that competition breeds efficiency to design sectors such as health care and education. In the final part of the volume, three chapters tackle the relationship between ideas and economic practices. Does the abstract market described by neoclassical theory diffuse because economic forces favor it or because it is a powerful idea? Do sectors that embrace the model actually conform to its principles?

Sociologists have long emphasized the importance of ideas in shaping economic behavior. This was the principal theme of Weber’s *The Protestant Ethic and the Spirit of Capitalism* (1905/1958), which shows how the Calvinist ethics of asceticism and a worldly calling stimulated capitalist behavior. Marx also believed that ideas shape economic behavior, arguing that the modern state is in the business of constructing ideologies of fairness and efficiency around institutions that favor the capitalist class.

In chapter 10, Richard Scott builds on his award-winning book *Institutional Change and Health Care Organizations* (Scott et al. 2000). In the health care sector, a market model of order won out over an early professional model of order and an interim bureaucratic model, which arose when the federal government got into the business of providing health care for the indigent and the elderly in the 1960s. How did the new market model of “managed care” arise?

Scott’s analysis of the striking changes in the health care industry traces the eventual rise of managed competition as the state “deregulated” the indus-

try and allowed “market mechanisms” to take over. Between the 1920s and the mid-1960s, the medical industry had been organized through professional control, with doctors making critical decisions. A shift in power and a change in public policy altered that model, as specialization divided the medical community and the federal government stepped in to cover a large number of people excluded by this system, imposing bureaucracy and a norm of equity. Equity in access to health care was the driving idea behind the new state model. A second shift in power and change in regulation then altered the state model as health maintenance organizations increased their market share and government sought to stem rising costs. Market efficiency was the new driving idea.

America’s weak federal state facilitated these changes, just as it had facilitated the early rise of large corporations described by Perrow in chapter 2. After all, other countries had nationalized health care and dictated how providers would behave. In the United States the federal system permitted early professional groups to set their own terms, and doctors did this more successfully than any other group. The result was the early professional model of control, which set the United States apart from other developed nations. America’s weak state also subsidized early health insurance with tax “expenditures” for employer-backed coverage and in so doing set the stage for the second phase: state takeover of insurance for excluded groups, the unemployed, and the retired.

Despite their rhetorical power, the ideas of equity in access and of market control of the industry were never very successful in practice. Under the state regime, many groups, notably the working poor, lacked health insurance. Under the managerial regime, the ideas of “deregulation” and “market mechanisms” are not actually matched by a decrease in regulation or, in most cases, by a rise in competition. Yet these ideas proved to be vital rhetorical tools in political struggles over how health care would be run. The ideas of professional domination, state-led equal access, and market coordination have proved to be powerful organizing principles, however, even if they have not been realized in practice.

In chapter 11, Deborah Davis explores resistance to the globalization of ideas about private ownership of real estate—specifically the resistance to a Western, capitalist real estate law that was instituted in China. Ideas about ownership and inheritance were dramatically different in pre-Communist China, when family rights of ownership and inheritance prevailed, and under communism, when collectivist ideas about real estate ownership prevailed. Familial conceptions of ownership remained surprisingly powerful even after half a century of Communist rule.

Davis’s chapter demonstrates how differently new global ideas about property rights can be interpreted in particular settings. Her study brilliantly epitomizes the continuing relevance of Weber’s caution to sociologists to try

to understand the subjective meaning of practices to members of a society. Previous legal regimes had deeply embedded meanings to the Chinese, and when the government installed a new property law based on Western ideas, economic behavior and social relations were slow to change.

Davis finds that in focus groups conducted in 2000 and 2002—eight and ten years after China's collective housing policy had been replaced with private ownership and several years after a majority of city dwellers had become owners of their apartments—people evaluated competing claims to ownership not through the lens of the law but through the lens of either the traditional familial system or the system of state socialism. These systems had their own rational logics, and change in state policy did not destroy those logics.

Davis takes the same broad approach taken by Schnepfer and Guillén in their chapter on the spread of hostile takeovers. Schnepfer and Guillén use cross-national comparisons to show that the hostile takeover spreads only to countries where the cultural and legal systems legitimate the trading of companies. Davis shows that the new global ideal of a real estate market faces cultural resistance in a setting where previous systems of real estate law define the new model as illegitimate. In both cases, the success of new ideas about property based in Western economic theory is mediated by local traditions.

Davis studies the clash of three systems of economic ideas, using real estate as a lens through which to observe China as it moves toward Western market institutions and ideas. Kieran Healy's chapter explores the struggle to use market principles and ideas in another realm where they seem illicit. He tries to understand how the organ transplant industry has eluded the problem of the seeming commodification of human organs. Healy's analysis parallels that of Viviana Zelizer in *Morals and Markets: The Development of Life Insurance in the United States* (1983). Zelizer asks how life insurance, which provides a cash payout for the death of a loved one, could surmount cultural barriers to the idea of commodification—the idea that a value can be placed on life. Healy similarly asks how the proponents of rationalizing the allocation of human organs have managed to transcend resistance to the idea of trade in body parts.

Since the 1970s, a system of procuring and distributing organs has arisen in the United States that can only be described as a market, even if cash payments are in most cases avoided. The obstacle for early consumers—the groups that sought organs to transplant—was the resistance of families to appeals for the organs of their dead, or dying, loved ones. Simple rational arguments did not win the hearts and minds of the survivors. Family members did eventually respond, however, to a new idea, a new emotional discourse of donation: the act of donation would be a means of healing the family's loss and an ongoing gift of life from the deceased. The issue of how to introduce monetary compensation was particularly fraught, for payment for organs seemed to amount to trafficking in human lives. Proponents made payments culturally acceptable

by disguising them. They proposed to discount insurance premiums for people who signed up for donation, creating a sort of futures market in organs. They won legislation in Pennsylvania to provide cash, but in the form of funeral expense assistance to be paid directly to the funeral home.

Healy's study illuminates a third dimension of the relationship between ideas and economic practices. Both Scott and Davis look at the effect of ideas on economic practices inside the market—in what became the health care “industry” and in the Chinese real estate market. By contrast, Healy follows in a long sociological tradition of trying to understand commodification in a realm that is culturally defined as outside of the market. Viviana Zelizer (1983) has done the same with the case of life insurance, which seems to place a value on human life, and Perry Anderson (1974) has done it for labor, which seemed under feudalism to be something inalienable and not something one could buy and sell. How quickly we came to accept the idea of placing a value on human life and on human time!

If economic theory and modern common sense suggest that there must be one “best way” to organize health care, real estate markets, or the market for human organs, the authors of these final chapters see that there are many effective ways to organize economic activity. Ideas help to select which among them will be identified as the one “best way.” Is health care more effectively organized on the professional model, the state model, or the managerial model? It is virtually impossible to say, and each model has claimed to optimize a different sort of outcome—patient care, equality of access, and managerial efficiency, respectively. It may be that circumstances determine which of the several models of rationality will be most effective. Defining property inheritance rights by law rather than by tradition seems to foster opposition in China, and market incentives appear to be ineffective in the case of organ donation. The question of how economic activities *should* be organized may be more than a question of how one abstract model of the economy suggests they should be.

Conclusion

The great promise of economic sociology is that it can explain aspects of economic behavior and institutions that have been resistant to explanation. The chapters assembled in this volume represent the best empirical work being done in economic sociology today, and the payoff is a series of empirically verified insights about how economic behavior patterns come about—a sociology of the economy. The social mechanisms underlying economic behavior that these twelve studies document do not boil down to a single principle, such as the principle of self-interest in neoclassical economics. But neither do these chapters present a disorganized hodgepodge of ideas. They demonstrate four social processes at work:

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1. The structure of political institutions determines who will shape economic institutions and conventions and what those institutions and conventions will look like.
2. Firms and nations follow the rational strategies of their role models, just as adolescents follow the behavior of their role models, and hence much economic behavior looks more like crowd behavior than like the result of pure rational calculation.
3. Social networks shape economic practices in a wide range of ways—by providing sanctions for malfeasance but also by providing cues that shape prices, by providing business strategies that industries can copy, and by shaping the competitive environment.
4. Ideas influence economic behavior and institutions, and ideas embedded in economic customs often shape new economic customs. For instance, the idea of market competition as efficient arbiter is well institutionalized in the industrial sector in the United States, and that idea has come to shape other sectors, such as health care. In the modern world there is a wide range of rational ideas—visions of how to rationalize things—and understanding their origins and influence promises to help us to understand why economic institutions and behaviors vary so significantly.

Economic sociology is built on the premise that narrow economic laws do not drive economic practices to become identical across societies. There may be many efficient ways to organize a transplant organ market, a market for corporate control, and the health care sector, as suggested by Healy; Schneper and Guillén; and Scott, respectively. Economic sociology has been reinvented since the 1980s in large part because nations that did not fit the model that Britain and later the United States seemed to epitomize grew at astonishing rates in the postwar period—chiefly the East Asian economies, but France, Germany, and Sweden as well. If there is more than one truly efficient solution to any economic problem, then the explanations of economic behavior that social scientists have been working with are too limiting. Most are based on the assumption that history is efficient, which suggests that economic practices evolve toward increasingly efficient forms. This kind of efficiency is certainly what nations oriented to growth strive for, and that striving has gone a long way toward increasing efficiency in the aggregate. But explanations of economic behavior have also been based on an assumption of optimality, which suggests that economic practices evolve toward a *single* efficient form. If economic practices are not evolving toward a single efficient form, it would appear that the ideal of the “perfect market” is not driving the evolution of economic practices and that we need to develop explanations that root economic behavior in society rather than in economic ideas that transcend society.

Taken together, these twelve chapters suggest that markets are social structures first and foremost. They are incompletely described by algorithms

that predict prices and output. As social structures, they are composed of roles, conventions, and institutions, and they are characterized by ongoing disputes over what those roles, conventions, and institutions should look like. These disputes are typically framed as scientific and managerial disagreements over the most efficient means of organizing the world, and this characterization of the disputes—their seeming orientation to divining the true “best way” of organizing an economic sector—reinforces the notion that it is economic laws that drive change in the system. Our determined efforts to divine the character of those economic laws often blind us to the mundane social origins of many economic behavior patterns.

Put another way, even if universal economic laws select superior economic roles, conventions, and institutions for survival and doom inferior ones, it is important to understand where the great variety of roles, conventions, and institutions come from in the first place. And even if economic laws shape the long-run evolution of the economy, it is important to understand what shapes the short-run social perturbations that spawn new market forms and often extinguish them before economic laws have a chance to do their job of rewarding the best and destroying the worst.

The chapters assembled in this volume show that markets have the characteristics of other sorts of social structures, like religions or clans. Like religions and clans, markets can take any number of different forms. Some will not prosper, but history suggests that many different forms of markets can prosper—that different logics of efficiency exist. For economic sociologists, then, the most important questions concern how markets emerge, stabilize, and change. It is these processes that are explored by the chapters of this book. The chapters on political institutions sketch the effects of the political on the initial structuring of markets. The chapters on economic models show how economic conventions travel from one place to another, producing change in markets. The chapters on networks show how social relations modify market behavior, and the final chapters show how ideas can revolutionize markets or make them resistant to change.

If markets are social structures, on a par with other social structures, rather than price functions, we need to know more about their organization and why they change. The studies included in this volume demonstrate the ability of economic sociology to explain the emergence of various types of markets, their persistence, and change. How can we understand, for instance, the stability of the model of American corporate structure over the last one hundred years—the tendency for large firms to dominate even in sectors where there are no economies of scale? Economic theory alone does not explain the early rise of huge firms in the United States, and so Charles Perrow traces the initial political institutions that encouraged capitalists to shape the regulations that they had to live by. Here, as in Bai Gao’s chapter on the rise of business associations in the Japanese economy, we see that political insti-

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tutions shaped early policymaking and thereby affected industry structure. In both cases, new policy institutions and corporate practices became cognitively embedded and thus resistant to challenge.

How can we explain the fact that American banks set up foreign branches in droves around 1970 but had stopped by 1980? Conventional economic explanations fail here, and it is clear that two important sociological forces were in play: a tendency to mimic role models and a tendency to learn through social networks. Mizruchi and Davis's study thus provides strong evidence that what goes by the name of "rational calculation" is often based not on evidence but on mimicry of role models, and that face-to-face networks are often the conduits through which new putatively rational prescriptions diffuse.

How can we explain the fact that modern medical care moved from professional domination to managed care? The change fits the commonsense view that the world is being rationalized in the image of neoliberalism, but it in fact represents the shift from one ideological form of rationality, professional expertise, to an interim form, bureaucratic expertise, to a third and fragile form, "managed care." Underlying this story we find competing groups with different rationales who have played different roles at different times. These competing ideas of rationality seemed to give the health care industry coherence and meaning for participants, and each seemed like the ultimate and final ordering of the industry at the time. Ideas do matter, and ideas of rationality have a certain finality about them.

That economic sociology has produced such a wealth of empirical findings in the scant twenty years since its renaissance bodes well for its future. That so many of those findings can be traced directly to a handful of social processes that the first group of economic sociologists, Karl Marx, Max Weber, and Émile Durkheim, saw at work a century or more ago also bodes well, because it suggests that a finite number of social mechanisms typically shape economic behavior and that those mechanisms are relatively stable across contexts. The structure of political institutions and decisionmaking processes matters for the form taken by economic institutions and regulations. The human tendency to copy behavior and to copy institutions seems to operate in all social contexts, and it plays a large role in shaping economic behavior (a role that is often attributed to rational calculation). Social systems shape behavior of all sorts, both through networks that diffuse new ideas and through networks that constrain malfeasance. And ideas influence all kinds of social behavior, including economic behavior, despite the fact that the effects can be difficult to see in a world where the proponents of new economic conventions and institutions appeal to universal economic laws rather than human-made conceptions of rationality.

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