There is a famous story from around the turn of the century about a meeting between Vilfredo Pareto, as always a vigorous advocate of analytical economics, and Gustav von Schmoller, the leader of the socially oriented Historical School of Economics. Pareto was well aware that Schmoller was critical of his idea that one could establish physics-like laws in economics, and once when Pareto was lecturing in Geneva Schmoller noisily interrupted him by shouting, “There are no laws in economics!” Pareto got annoyed and decided to teach Schmoller a lesson. He got his chance the next day when he saw Schmoller in the streets of Geneva. Pareto approached Schmoller and hid his face, pretending to be a beggar (which was not too difficult since Pareto was a shabby dresser). “Please, Sir,” Pareto said, “Can you tell me where I can find a restaurant where you can eat for nothing?” Schmoller replied, “My dear man, there are no such restaurants, but there is a place around the corner where you can have a good meal very cheaply.” “Ah,” said Pareto triumphantly, “so there are laws in economics!”

This story is usually told to illustrate the naivete of the proponents for a social and historical approach in economics: they simply do not understand the hard economic realities, as codified in the economists’ laws.¹ But today, nearly a century after the meeting between Pareto and Schmoller, it is not so clear that all the laughter would be on Pareto’s side. There are several reasons for this. One is that the days are over when it was realistic to believe that economics could develop physics-like laws, valid for all times and countries. Another is that today’s economists, following Pareto et al., have gone much too far in eliminating social and historical elements from their analyses. It is no doubt true that neoclas-

¹For the Pareto-Schmoller anecdote, see, for example, Pareto (1935:xviii). A latter-day version reads “there is no such thing as a free lunch.”
sical economics has many splendid accomplishments to its name. But it is equally clear that the current type of analytical economics has failed to integrate a social perspective into its analyses, and that this prevents it from ultimately becoming a truly successful social science.

It is in this situation that economic sociology comes into the picture. Economic sociology may be defined as the attempt to analyze economic phenomena as social phenomena or as resulting from human interaction, within the context of broader social structures. As a distinct type of analysis, economic sociology was invented in the 1890s, primarily by Max Weber who was deeply disturbed by the polarization of economics into an historical branch and an analytical branch in the so-called Battle of the Methods (Methodenstreit). But Weber was not alone in his interest in economic sociology; Durkheim and Simmel (and later Schumpeter) were also fascinated by this new approach to economics. All the time, in the background, there was of course also the magnificent work of Karl Marx, formerly in political economy but sociological to its core.

Despite the fact that all the founders of sociology (including Comte!) felt that it was extremely important to develop a sociological analysis of the economy, the topic somehow got lost during the twentieth century when sociology was professionalized and grudgingly accepted into the universities. Sociologists shied away from what they saw as purely “economic” topics (which were left to the economists) and only approached the more social-looking economic problems, often under the protective cover of some relatively innocuous-sounding name such as “consumer sociology,” “industrial sociology,” and the like. Talcott Parsons, Neil Smelser, and Wilbert E. Moore made a vigorous effort in the late 1950s and early 1960s to revive economic sociology, but failed. Exactly why the topic did not catch on during all these years is not clear. It was actually not till the 1980s that economic sociology got some fresh wind in its sails. Public discourse now shifted to economic topics, especially to the market, and what was soon to be called “New Economic Sociology” started to develop, first slowly and then with increasing speed. This new

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2Throughout this introduction we shall use the term economic sociology, since this is the term used—and defined—by Max Weber (Wirtschaftssoziologie), Emile Durkheim (sociologie économique), and Joseph A. Schumpeter (Wirtschaftssoziologie und economic sociology). A particularly fine outline of the tasks of economic sociology can be found in Chapter 2 of Economy and Society (Weber 1978:63–211).

3For the history of economic sociology, see Swedberg (1987; 1991).

type of economic sociology, it should be noted, is considerably more aggressive than its predecessors. It does not respect the economists’ turf, but takes on such “economic” topics as markets, insurance, price formation, and the like. The present volume is the most recent product of this new and more ambitious economic sociology.

The Origin of the Russell Sage Seminar in Economic Sociology (1990—)

From the viewpoint of economic sociology in general, the decision by the Russell Sage Foundation to start a seminar series in economic sociology, beginning in 1990, was very important. The reason for this is that, even though there are a number of sociologists today who are interested in economic topics, the field of economic sociology itself has been very little institutionalized. Because of its history during most of the twentieth century, little effort has been made to provide economic sociology with the kind of infrastructure that is natural for a major field in sociology. There does not exist, for example, a section devoted to economic sociology in the American Sociological Association; there does not exist a journal (or yearbook) in economic sociology; and there does not exist an association or newsletter for scholars who are interested in economic sociology. Sociologists who do work on economic topics have now and then been able to gather together at the ASA around an isolated session on “the sociology of markets,” “the sociology of banking,” (or, more recently, simply “economic sociology”). There are also the yearly meetings of the Socio-Economic Society, which are interdisciplinary in nature and where sociological approaches are welcome. But, on the whole, there exists far too little sustained interaction between economic sociologists, and this makes the decision of the Russell Sage Foundation to hold its monthly seminar particularly welcome.

The decision by the Foundation to organize a seminar on economic sociology goes back to its efforts, already expressed in 1987, to “open up economic issues to more socially and behaviorally informed approaches.”5 Originally, this interest in alternative approaches to economics was exclusively centered on behavioral economics; the Foundation thus decided in the late 1980s to co-sponsor a program in this field with the Sloan Foundation. A need to complement behavioral economics with


a more socially oriented type of analysis was, however, soon felt. In the spring of 1988, for example, the idea of putting together a group of economic sociologists at the Foundation was explored. For advice the Foundation turned to Mark Granovetter, who by the mid-80s had emerged as one of the key proponents of New Economic Sociology. In 1989 the Foundation decided to support Granovetter's project for a major theoretical treatise in economic sociology, and it was also agreed that he should help organize a seminar at the Foundation. The seminar, it was understood, should coincide with an effort from the Foundation to invite a few visiting scholars who were particularly interested in economic sociology. By the fall of 1990, the whole set-up was clear: a few visiting scholars had been assembled (Charles Perrow, Frank Romo, and Richard Swedberg), and a date had been set for the seminar.

The first meeting of the seminar took place on October 15, 1990, and nine sociologists attended, mostly from the New York region. The group quickly expanded over the year, and by the time of the last meeting, in June 1991, there were sixteen regularly attending members. Most of these people have contributed chapters to this book. Occasionally, specially invited guests such as Alessandro Pizzorno, Lynne Zucker, and Siegwart Lindenberg attended the seminars. The meetings took place in the library of the Foundation and were chaired by Mark Granovetter. At a typical meeting, two people would present papers, which were then discussed and criticized. Most people presented a few samples of their works-in-progress, which usually meant that four to five papers were read for each session. The seminar series was not centered on a single theme, such as money, markets, or networks in the economy. As a result, there was great diversity of methods and topics in the papers that were presented.

The Major Themes of this Book

The 1990–1991 seminar at the Foundation was mainly exploratory in nature, and this is reflected in the chapters that have been included in this book as well as in its title. Still, it is clear that certain questions were more discussed than others, and an attempt has been made to group together the chapters so as to reflect this. One of these questions had to do with the way economic relationships are analyzed in the social sciences (Part

6The sixteen members were: Ronald Burt, Paul DiMaggio, Mark Granovetter, Paul Hirsch, Mark Lazerson, Mark Mizruchi, Marshall Meyer, Charles Perrow, Frank Romo, Charles Sabel, Michael Schwartz, Charles Smith, Richard Swedberg, Michael Useem, Harrison White, and Viviana Zelizer.
I). This topic is obviously central to economic sociology, and a series of different positions are possible: only economics should deal with economic topics; only social (as opposed to neoclassical) approaches should be used when analyzing economic phenomena; and a mixture of economic and social approaches can be used. Two of the chapters in this volume directly address this issue: Mark Granovetter’s “The Nature of Economic Relationships” (Chapter 1) and Richard Swedberg’s “On the Relationship between Economic Theory and Economic Sociology in the Work of Joseph Schumpeter” (Chapter 2). Both authors argue that one should use a mixture of social and economic approaches. Granovetter, for example, finds support for this thesis in his reading of economic anthropology. “The evidence makes clear,” he says, “that both supply and demand and social structure effect prices and quantities in tribal and peasant markets.” Swedberg analyzes Schumpeter’s thesis that a complete economic analysis must simultaneously draw on four approaches: economic theory, economic history, economic sociology, and statistics (e.g., Schumpeter 1954:12–21). As Swedberg points out, Schumpeter claimed that a good economist must be trained in all four of these fields—but the specific way that one puts together the concrete analysis is necessarily different from case to case.

Neither Granovetter nor Swedberg spell out in any detail how one is to travel the golden middle road between excesses in economic theory and economic sociology. One can, however, point to two implicit conclusions of their arguments. One is that any kind of economic analysis that does not contain, at some level, a genuinely social approach will ultimately fail to get a handle on most economic reality. The other is that the need for a genuinely social approach does not rule out that some of the basic ideas of mainstream economics are very useful. All in all, the two articles by Granovetter and Swedberg thus contain an advocacy for cooperation between economists and sociologists around economic problems.

Another theme that emerged in the seminar has to do with the role of trust, cooperation, and competition in economic life (Part II). According to neoclassical theory, certain social institutions are necessary if the economy is to function properly. Or, as economists sometimes formulate it: Economic mechanisms can only operate within a distinct framework of institutions. Several chapters in this volume, however, go directly counter to this view of things. This is the case with Ronald Burt, “The Social

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6 See, for example, the introduction to Schumpeter’s History of Economic Analysis.
Structure of Competition” (Chapter 3), Charles Sabel, “Studied Trust: Building New Forms of Cooperation in a Volatile Economy” (Chapter 4), and Paul Hirsch, “Undoing the Managerial Revolution? Needed Research on the Decline of Middle Management and Internal Labor Markets” (Chapter 5). According to these authors, the economic arena itself (as opposed to the institutional framework that supposedly surrounds it) is not something nonsocial, where everything is decided by demand and supply. Instead, the economic arena consists of a number of mechanisms that are truly social in nature, such as trust, cooperation, and competition. Economists have paid relatively little attention to these three forms of interaction; and when they have discussed them at all, they have usually done so in purely economic terms. But as Burt, Sabel, and Hirsch show, these forms are much more complex than that; and they need to be theoretically reconstructed from a social perspective if they are to become truly useful as theoretical tools.

Burt’s essay, it should be noted, represents the first sustained attempt by a sociologist to develop a general theory of competition; he does this through a networks approach. The basic idea is that competition consists of a subtle form of social interaction—an attempt to close “social holes,” in Burt’s terminology—where it is more the possibility of a relationship than an actual relationship that is important. How far one can go with Burt’s type of analysis is not clear. It is, however, obvious that his whole approach is radically different from that of mainstream economics, where the emphasis is on isolated actors in various combinations (monopoly-oligopoly-perfect competition and so on).

Trust and cooperation, on the other hand, are topics that sociologists have paid quite a bit of attention to over the years, both in the United States and elsewhere.9 The main point has usually been to show that neither society in general nor some particular institution can exist without trust and cooperation. The two chapters by Sabel and Hirsch attempt, however, to make a different point. Sabel’s main contribution consists in laying bare the difficulty in constructing trust in employer-worker relationships. Hirsch similarly notes that once trust is destroyed, it can have disturbing ripple effects elsewhere in the economy. His empirical focus, however, is on a different group than Sabel, namely middle managers.

9The literature on cooperation goes back to Marx and Durkheim. Though Simmel (1978) discussed the notion of trust (he was the first sociologist to do so), it was not until the 1970s and 1980s that this concept was integrated into mainstream sociological theory. The most sophisticated theoretical approach to trust is probably that of Luhmann (1979); for an overview of the literature, see, for example, Shapiro (1987).
Another theme that emerged during the seminar had to do with the social construction of economic institutions, such as money, markets, and industries (Part III). It is clear that much of the work that pioneered New Economic Sociology in the 1980s was centered on economic institutions, and it seems that this topic continues to fascinate economic sociologists. It would be premature to say that there already exists a new and exciting sociological theory of economic institutions. It seems, however, that such a theory is well under way; and the reader can get a sense of what it will probably look like in its final version by reading the following four essays: Harrison C. White, “Markets in Production Networks” (Chapter 6); Charles W. Smith, “Auctions: From Walras to the Real World” (Chapter 7); Viviana Zelizer, “Making Multiple Monies” (Chapter 8); and Patrick McGuire, Mark Granovetter, and Michael Schwartz, “Thomas Edison and the Social Construction of the Early Electricity Industry in America” (Chapter 9). All these chapters emphasize that economic institutions are basically to be understood as a kind of social construction. This term is primarily associated with Berger and Luckmann’s famous book The Social Construction of Reality (1966) and comes from the work of Alfred Schutz (see Granovetter 1990:108–109). Most of the people who use it, however, are not particularly inspired by Schutz (who had picked up the key ideas from Weber). Instead they use the term social construction in a rather loose sense, mainly to indicate that an institution is not something given, but rather the result of a complicated construction through social interaction.

One consequence of this social construction perspective is that the neoclassical vision of how institutions come into being (New Institutional Economics) is seen as hopelessly flawed.10 This comes out with particular clarity in the essay by McGuire, Granovetter, and Schwartz on the electric utility industry. Another consequence is a strong emphasis on the need for a historical perspective: a “construction” begins by definition at a certain moment in time and evolves from there. It also seems that today’s economic sociologists reject the economists’ idea that there exist only a few basic economic institutions and that these are unitary in nature. According to economic theory, there is, for example, only one type of money, one type of market, and one type of auction. But the authors of Chapters 6 through 9 argue that there exists a real multiplicity

10 The main sociological argument against New Institutional Economics is that the emergence and functioning of social institutions cannot be explained in terms of cost efficiency. While people such as Coase and Williamson argue that a corporation is used rather than the market because it is cheaper to proceed in this manner, sociologists claim that this type of analysis falls into the old trap of functionalism: everything is said to exist because it fulfills some function that is constructed ex post (see Granovetter 1985).
of different types of monies, markets, and auctions. Another sign of multiplicity that incidentally characterizes these four chapters is that they all use different approaches and material to get at their topics. Harrison White uses model building; Smith, ethnographic material; Zelizer, social and cultural history; and McGuire, Granovetter, and Schwartz, business history. This multiplicity of material and approaches also hints of the pluralism that currently characterizes economic sociology.

A further theme in this book has to do with the performance of firms and their environments (Part IV). Sociologists have for a long time been interested in large corporations and used a number of different perspectives in analyzing these, especially those of Marx, Weber, and organization theory. Some of this interest has today been channeled into an interest in economic sociology. Four essays in this section exemplify this tendency: Marshall Meyer (in collaboration with Kenneth O'Shaughnessy), “Organizational Design and the Performance Paradox” (Chapter 10); Linda Brewster Stearns and Mark Mizruchi, “Corporate Financing: Social and Economic Determinants” (Chapter 11); Michael Useem, “Shareholder Power and the Struggle for Corporate Control” (Chapter 12); and Frank Romo and Michael Schwartz, “The Coming of Post-Industrial Society Revisited: Manufacturing and the Prospects for a Service-Based Economy” (Chapter 13). These chapters also focus on a much-discussed problem in recent organization theory: the interaction of firms with their environments. A particular theme that unites them further is that of performance. Marshall Meyer, for example, analyzes why there is so little correlation between various performance measures. Linda Brewster Stearns and Mark Mizruchi approach the topic of firms, performance, and their environments from a different angle: when does a corporation need to borrow money and what role does its relationship to financial institutions play in this process? Michael Useem analyzes the way an old interest group—the owners—have recently made a comeback in the modern corporation and what consequences this may have. And, finally, Frank Romo and Michael Schwartz suggest that the vitality of regional economies depends on how tightly linked individual corporations (as well as whole industrial sectors) are to one another.

Finally, two additional chapters on corporations were presented at the seminar that also deal with performance in relation to the corporate environment. Since both of them, however, focus on small firms, it seemed more appropriate to discuss them in a separate section centered on the theme of small firms in networks (Part V). One of these chapters is exclusively devoted to a case study—Mark Lazer's “Future Alternatives of Work Reflected in the Past: Putting-Out Production in Modena” (Chapter 15)—and the other is more general in nature, Charles Perrow's “Small
Firm Networks.” Both, however, agree that the significance of small firms in production networks extends well beyond their actual role in the economy. From the vantage point of his research, Lazerson thus states that “the sun is setting on the epoch of centralized production.” And Perrow argues that the existence of small firms networks is one of the very few phenomena that go counter to the general trend in modern society for the large corporation to absorb ever more of social life.

Concluding Remarks

When the seminar at the Russell Sage Foundation was initiated, it was hoped that it would help to further the development of economic sociology. We can now present the contribution made by the seminar in 1990–1991 in a more concise form. There is, first of all, the insight or proposition that economic sociology and economic theory often complement each other and that one has to draw on both for an adequate analysis. This was particularly emphasized in the more general essays (Granovetter, Swedberg). Or to cite two concrete examples: when a price is decided, both social elements and demand-supply forces are involved (Granovetter); and when a corporation decides to borrow money, this decision is influenced not only by its need for new funds but also by its social network (Stearns and Mizruchi). Markets, it was also emphasized, are primarily to be understood as social structures, which means that many of the more un-social premises of neoclassical theory definitely have to be scrapped (White).

A further contribution of this volume is represented by the attempt to lay bare certain intermediate processes that are fundamental to economic life, such as trust, competition, and cooperation. As to trust, two important theoretical points were made: that trust is difficult—but not impossible—to create in economic relationships (Sabel); and that the destruction of trust in one area of the economy may have destructive ripple effects in other areas (Hirsch). An interesting and ambitious attempt to develop a theory of competition was also presented at the seminar (Burt). This was centered on the idea of “structural holes,” and is a further example of how important networks analysis has become for today’s economic sociology.

Another interesting development in New Economic Sociology, which was also represented at the seminar, has to do with the attempt to develop a sociological theory of economic institutions. This theory is currently associated with the slogan “the social construction of economic institutions,” and is being simultaneously worked on by a number of people with very diverse interests. This book contains, for example,
ters along these lines in the sociology of money (Zelizer), on auctions (Smith) and on production markets (White). A fascinating attempt to account for the emergence of a whole industry was also made (McGuire, Granovetter, and Schwartz).

Sociologists have also continued to make advances in the study of business corporations. The decision made at the seminar to focus attention on performance is definitely innovative (Meyer); as is the attempt to analyze why corporations borrow (Stearns and Mizruchi). There are also promising signs that economic sociologists are becoming more sophisticated in their discussions of major public issues concerning the economy, such as deindustrialization (Romo and Schwartz) and the relationship between owners and managers in the huge corporations (Useem, Hirsch). Novel contributions to the old debate about the advantages of small versus large corporations were also made (Perrow, Lazerson).

For a variety of reasons, a number of important issues were not raised during the Russell Sage seminar in 1990–1991—but, it is hoped, will be discussed during the years to come. One lacks, for example, a comparative perspective or a gender perspective in many of the chapters that have been included in this book. And no author tried to analyze the momentous events that are currently going on in the economies of Eastern Europe and in what was once the Soviet Union. Some of the classic topics in economic sociology were also passed over in silence, topics such as consumption, the international economy, and the relationship between religion and economic life. It also seems that, although many sociologists today have some knowledge of economic theory, there is little equivalent knowledge of economic history. This is a pity because some of the best works in economic history—such as those by Henri Pirenne, Marc Bloch, and Alexander Gerschenkron—show a natural affinity with economic sociology. So perhaps this is the time to recall once more Schumpeter’s dictum that a sound analysis of economic topics (or what he called Sozialökonomik) must simultaneously draw on several approaches: economic theory, economic sociology, economic history, and statistics.

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