

# Economic Sociology in a Nutshell

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# What is Economic Sociology?

- the sociological perspective applied to economic phenomena (Weber; Durkheim)
- the application of the frames of reference, variables, and explanatory models of sociology to that complex of activities concerned with the production, distribution, exchange, and consumption of scarce goods and services. (Smelser & Swedberg)
- Then, what defines sociological perspectives? how it is different from other perspectives?

# Why people start to study economic sociology?

- One should not assume that certain topics are inherently “economic” (as in: why does something cost as much as it does?) while others are inherently “social” (as in: why do people vote as they do?).
- Rather, the division between economics and other social sciences are less clear.
  - new economic sociology
  - rational choice theory
  - new institutional economics
  - economic imperialism
  - behavioral economics

# Basic Principle of Economic Sociology

- How does social structure shape economic action?
  - Economic action as social action
  - Economic action as socially situated
  - Economic institutions as social constructions
    - social construction of reality
    - path dependence
    - social networks

# Mainstream Economics: Ten principles by Menkiw

Video: Principles of economics, translated

- 1 People Face Tradeoffs.
- 2 The Cost of Something is What You Give Up to Get It.
- 3 Rational People Think at the Margin.
- 4 People Respond to Incentives.
- 5 Trade Can Make Everyone Better Off.
- 6 Markets Are Usually a Good Way to Organize Economic Activity.
- 7 Governments Can Sometimes Improve Market Outcomes.
- 8 A Country's Standard of Living Depends on Its Ability to Produce Goods and Services.
- 9 Prices Rise When the Government Prints Too Much Money.
- 10 Society Faces a Short-Run Tradeoff Between Inflation and Unemployment.

# History of sociology of the economy

- Since the publication of Adam Smith's *Wealth of Nations* (1776)
  - the historical social perspective (Germany)
  - the abstract-deductive perspective (England)
  - so called, "the battle of the methods" (Methodenstreit, Comte)
  - Comte, Durkheim, Weber, Schumpeter, Marx

# History of sociology of the economy

- The New Economic Sociology
  - Parsons
    - sociology: on the values and ends in the means-end chains
    - economics: the most efficient ways to achieve ends taken as given
  - Polanyi: formalists vs. substantivists in economic anthropology
  - Gary Becker (Chicago)
  - the New Economic Sociology: the 1970 and the 1980s
    - rational choice theory
    - New Economic sociology
    - socio-economics; PSA-economics; Transaction cost economics

# Markets and Their Preconditions

In order to make “market exchanges,” what do I need to “have”?  
(ie., precondition)

- property and property rights
- buyers and sellers
- a medium of exchange (money)
- information



# The Embeddedness of Markets

- meaning: markets coexist with, are shaped by, and depend on, other social relations.
- markets are embedded in institutions and culture.

# Concepts of the Actor

- **Economic sociology**: the analytic starting points are groups, institutions, and society. Actor-in-interaction; actor-in-society
- Assumption: actors are linked with and influenced by others.
- **Mainstream economics**: the analytical starting point is the individual (methodological individualism)
- Assumption: actors are not connected to one another.

# Concepts of Economic Action

- **Economic sociology**: the economic action can be rational, traditional, or speculative irrational. Rationality is a phenomenon to be explained, not assumed.
- **Mainstream economics**: a given set of preferences; utility maximization;
- **Rationality**: a given assumption or a subject of research; constant vs. variable

# The Economy in Relation to Society

- **Economic sociology**: interaction with other forces.
- **Mainstream economics**: the main foci = economic exchange, the market, and the economy. The remainder of society is regarded as “out there.”

# Methods

- **Economic sociology**: a great variety of methods: census data; survey; participant observation; field work; historical and comparative analysis
- **Mainstream economics**: data generated by economic processes themselves (e.g., stock exchange transactions)

# Micro-Macro Match

- **Economic sociology:**
  - start in the middle ground: organizations and networks
  - move to the micro research based on bounded rationality, behavioral decision theory
  - macro: conflictual negotiations among inter-dependent actors  
→ formal and informal mechanism of governance (power, status, legitimation)
- **Mainstream economics:**
  - build macro-models on the basis of consistent micro-foundations
  - rational choice psychology and general equilibrium models

# Economic Sociology

- The sociological perspective applied to economic phenomenon (Durkheim 1893; Weber 1919)
- The general study of the condition of the production and reproduction of social life. Such a study would include studies of consumption, the family, and the links between states and households, schooling, and economic life more broadly (Smelser & Swedberg 2005, p3).
- Economic sociology differs from economic theory primarily by the great importance it attaches to social relations and social institutions. It is however similar to economic theory in arguing that the concepts of interest and rationality are indispensable for understanding of economic phenomena (Swedberg et al., 1992)

# Topics in Economic Sociology

- economic values
- networks
- consumption
- firms: ILM (internal labor market)
- economic development
- globalization
- varieties of capitalism; socialism
- economic development
- income/wealth inequality
- race/gender and economy
- productivity



# Karl Marx

## Class Analysis

- “Labor is a necessary condition, independent of all forms of society, for the existence of the human race.”
- “The history of all previous societies has been the history of class struggles.”
- class-in-itself vs. class-for-itself
- class interests vs. individual interests

## Social Structure

- the relations of production, the forces of production, and the mode of production
- base and superstructure; ideology

# The Communist Manifesto (1848)

"The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guildmaster and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes."

# Karl Marx

- Capital (1867)
- The Manifesto of the Communist Party (1848 with Engels)
- Grundrisse (1857-58)

# Max Weber

- *The Protestant Ethic and the Spirit of Capitalism:*
  - About how ideal and material interests drive people's actions.
  - Religious interests + economic interests.
- Social Economics (Economic analysis)
  - 1 economic phenomenon
  - 2 economically relevant phenomenon
  - 3 economically conditioned phenomenon
- Economics vs. Economic sociology
  - Economics: pure economic action, which is exclusively driven by economic interests
  - Economic sociology: *social* economic action, or action that is driven by economic interests and oriented to other actors.

# Max Weber

## Economically oriented organizations

- Economic organizations: e.g., firms
- Economically active organizations: e.g., church
- Organizations which regulate economic activities: e.g., union
- Organizations which police the economic system: e.g., the laissez-faire state

# Max Weber

- The Protestant Ethic and the Spirit of Capitalism (1904)
- Economy and Society (1922)
- General Economic History (1923)

# Emile Durkheim

## The Division of Labor in Society (1893)

- private interest vs. general interest
- The social dimension of the division of labor: how it helps to integrate society and make it cohesive, by creating a multitude of dependencies.
- self-interest and social balance:  
“The contract is not sufficient by itself, but is only possible b/c of the regulation of contracts, which is social in origin.”
- *gemeinschaft* and *gesellschaft*
- The individual will thrive b/c of the warmth that come from being a member of a group (corporations).

# Emile Durkheim

- He believed that if economics were ever to become scientific, it would have to become a branch of sociology.
- Contrast economic men with real men.
- attacks economics for being nonempirical, “the ideological tendency of economics”



# Emile Durkheim

## Economic institutions

- institutions relating to the production of wealth (factory)
- institutions relating to exchange (commercial organization, markets)
- institutions relating to distribution (rent, salary)

# Polanyi

- **The key idea:** the (neoclassical) economic theory is not applicable to pre-industrial societies. The market is an outcome of a historical process driven by a social class rather than a natural institution which spontaneously arises from abiding characteristics of human nature.

# The Poor Law

In 1833 Earl Grey, the Prime Minister, set up a Poor Law Commission to examine the working of the poor Law system in Britain. As a result, the Poor Law Amendment Act was passed. The act stated that:

- no able-bodied person was to receive money or other help from the Poor Law authorities except in a workhouse;
- conditions in workhouses were to be made very harsh to discourage people from wanting to receive help;
- workhouses were to be built in every parish or, if parishes were too small, in unions of parishes;

# Polanyi: Embeddedness

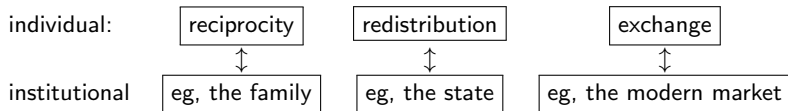
- “The human economy... is embedded and enmeshed in institutions, economic and non economic. The inclusion of non economic is vital. For religion or government may be as important to the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labor.”
- it is an “economistic fallacy” to identify the economy as the market because the economy is a system embedded in society:
- Non-“economic” aspects of the economy

# Polanyi: formal and substantive meanings of economic

- **the formal concepts:** the manner in which the logic of rational action produces formal economics, and the latter, in turn, gives rise to economic analysis. “Rational” does not refer either to ends or to means, but rather to the relating of means to ends.
- **the substantive concepts:** as an instituted process of interaction between man and his environment, which results in a continuous supply of want satisfying material means.

# Polanyi: Different Ways of Organizing the Economy

- **reciprocity**: the exchange among persons and groups on the basis of mutual obligation
- **redistribution**: the movement of goods and services to a “center” and then outward
- **exchange**: transactions in the market



# Granovetter

- **The key idea:** both under-socialized (economic) and over-socialized (sociological) accounts of social action ignore the fact that actors; behavior is embedded in on-going social relations.
- He criticizes the assumption of neoclassical economic theory, i.e., the assumption of “atomized” decision-making.
  - a structural sociologist
  - reject methodological individualism
  - reject technological and material determinism

# Granovetter (con'd)

- **linking the concept of embeddedness with social network:** networks of social relations penetrate irregularly and in different degrees in different sectors of economic life.
- **linking the concept of embeddedness with institutions:** economic institutions = the mobilization of resources for collective action.
- **economic action:** never exclusively inspired by economic interests—as soon as the actor starts to interact with other actors, other interests also begin to intervene, namely social interests.
- weak ties vs. strong ties



# Polanyi vs. Granovetter

- Embeddedness and history:
  - Polanyi: Precapitalist economies are embedded; Capitalist economies are not.
  - Granovetter: All economies are embedded.
- Economy and Society
  - Polanyi: the economic and the social are in tension
  - Granovetter: the embeddedness (network, obligation, reciprocity, and trust) is entirely devoted to the service of economic rationality, i.e., to getting labor markets to function.

# Embeddedness

- The economic relationships coexist with, are shaped by, and depend on, other social relations.
- Participation in markets and organizations depend on having a network of friends, having political power, professional interactions amongst co-workers, citizenship in a country.

# Three types of embeddedness

Economic institutions are embedded in political, social, cultural, and moral structures. These structures define and shape the economic relationships and practices in production, consumption and distribution of goods.

- 1 formal and legal
- 2 informal and social
- 3 cultural and moral

# 1. Formal embedded relationships

- government must develop and enforce private property rights
- currency issued by a government (central bank)
- legal system for the contract law
- legal system for the bankruptcy law

## 2. Informal social relations

- family business
- economic ethnic enclave
- friendship networks

### 3. Culture and morality

- consumption: requires particular cultural meanings
- production: e.g., 8 hours a day
- distribution: e.g., mother's meal; poverty line

Next week we will continue to discuss basic concepts in economic sociology.