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BEYOND THE MARKETPLACE

Rethinking Economy and Society

Edited by
Roger Friedland and A. F. Robertson

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The Old and the New Economic Sociology: A History and an Agenda

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Mark Granovetter

In this paper I first trace the ups and downs of economic sociology in the twentieth century and then present my own perspective on the subject, and the agenda for research that it entails.

THE CHECKERED HISTORY OF ECONOMIC SOCIOLOGY

Accommodation and Separation: 1890–1970

In the late nineteenth century, economics moved away from its earlier broad institutional interests to a narrow concern with the marginal analysis of markets. The ascent of the "marginalists" in the 1890s initiated a period, lasting until the 1970s, during which the analysis of institutions was considered unscientific and thus foreign to orthodox economics. The loss of interest in institutions solidified the attitude that was already common among economists, that sociology was a pseudoscience that had nothing to offer them.[1]

Nor was it incorrect to believe, during this period, that sociologists had little to contribute to the subject areas studied by orthodox or "neoclassical" economics. This resulted in part from the academic politics surrounding the establishment of sociology as a discipline. At the turn of the century, to get a place in the university, sociologists had to persuade existing disciplines that they would not poach on their territory (see Swedberg 1987, pp. 17–20). Thus, sociology became what early Chicago sociologist Albion Small called the "science of leftovers," backing off of the economic and political spheres and focusing on such unclaimed subjects as the family, deviance, crime, and urban pathology.

Thus, from 1890 to 1970 the disciplines covered quite separate subject work. Yet, in both economics and sociology, internal developments were creating new concerns that would soon lead to a quite different situation. The "New Institutional Economics" was beginning to emerge from neoclassical work, and what I will call the "new sociology of economic life" was taking shape in sociology.

The New Institutional Economics and the New Sociology of Economic Life: 1970–

As Parsons recognized, institutional economics had no distinctive theoretical framework. Even such outstanding scholars as Veblen, Commons, Slichter, Mitchell, and Dunlop proceeded in an ad hoc fashion, using historical and legal arguments in ways that were impressive but not cumulative. The success of mathematical economics increasingly put the institutionalists on the defensive. They held sway longer in labor economics than elsewhere, but even there were fighting a losing battle by the 1950s; labor economics is now dominated by orthodox neoclassical views.

This orthodox penetration into labor studies is part of a broad movement—the "New Institutional Economics"—the emergence from the 1960s on of a new interest not only in economic institutions but even in such apparently noneconomic matters as marriage and divorce, crime, fertility, animal behavior, and altruism. The virtual demise of a vigorous, nonneoclassical institutional economics has thus produced an odd simultaneous narrowing of the conceptual apparatus accompanied by a broadening of the subject matter.

In the New Institutional Economics, all manner of economic, political, and legal institutions are interpreted as the efficient outcome of rational individuals pursuing their self-interest. The level of ambition displayed in this new economic imperialism is indicated by the optimistic claim of Jack Hirshleifer that "economics really does constitute the universal grammar of social science" (1985:53).

While orthodox economists were rediscovering institutions, sociologists took a new look at the economy. This new interest was largely detached from industrial sociology or the economy and society perspective, and was especially spurred by Marxist work such as Harry Braverman's *Labor and Monopoly Capital* (1974). A revival of industrial sociology followed, but in a Marxist key (Burawoy 1979, 1985; Clawson 1980; Stark 1986). Subsequently, interest in interlocking directorates and the power of finance capital led to important new work on capital markets (Mintz and Schwartz 1985; Stearns 1986).

Meanwhile, students of stratification and organizations increasingly came to see the workings of labor and product markets, and interorganizational relations, as central in explaining outcomes (Berg 1981; Farkas and England 1988). And social network analysts moved into economic sociology (White 1981; Burt 1983; Granovetter 1985; Mizruchi and Schwartz 1988). Many such analysts are mathematically inclined and thus not scared off by the technicalities of microeconomics; and since network analysis often takes the individual as a fundamental unit of analysis, it is methodologically more individualist than some other sociological traditions. But the underlying conception of network arguments lends itself to a fundamental critique of the atomized conception of action in neoclassical theory. Thus, this group, close enough to appreciate economic arguments but different enough to offer a basic critique, has been in a structurally strategic position.

Ironically, a main spur to the resurgence of sociological interest in economic life has been economic imperialism. Though some sociologists have accepted microeconomic arguments, many have come to see them, especially in the simple and stark form outlined by Gary Becker (1976, 1981), as useful foils against which to illuminate the distinctive contributions of the classical sociological tradition. One of the main differences between the old and the new sociology of economic life is thus exactly that the newer work reverses economic imperialism by offering sociological accounts of core economic subjects such as markets, contracts, money, exchange, and banking. In doing so, it is much less accepting of orthodox economic theory than the older tradition that focused on the institutional preconditions for economic life, and thus never needed to offer an alternative account of everyday economic activity.[5]

Locating my own work squarely within this "new sociology of economic life," I argue that orthodox neoclassical theory, and its recent work on economic and social institutions, are flawed in ways that a sociological perspective can highlight and help remedy. The brilliant achievements of neoclassical arguments in illuminating the efficient pursuit of well-defined preferences must be accompanied by an appreciation of the extent to which such pursuit is intertwined with noneconomic goals, and deeply embedded in structures of social interaction that extend backward in time and outward in space.

In the second part of this paper I describe my own conception of the sociology of economic life and the research agenda it entails.

THE SOCIAL CONSTRUCTION OF ECONOMIC INSTITUTIONS

The Problem of Embeddedness

My approach to economic sociology draws on two fundamental sociological propositions: (1) action is always socially situated and cannot be explained by reference to individual motives alone, and (2)social institutions do not arise automatically in some inevitable form but rather are "socially constructed" (Berger and Luckmann 1966). Both are inconsistent with the main thrust of neoclassical economic arguments.

The first proposition leads to what I call the "problem of embeddedness": the question to what extent economic activity is mediated by—or as I say, "embedded in"—networks of personal relations. This discussion will lead me into my argument about the "social construction of economic institutions."

Sociologists, anthropologists, and historians have generally argued that economic action was heavily embedded in "primitive" or "premarket" societies but has become much more autonomous with modernization: that the modern economy is more a separate sphere, where economic transactions are no longer determined mainly by the social or kinship obligations of transactors, but by rational pursuit of individual gain.

But most economists never accepted the premise of a sharp break between earlier and modern societies, asserting that embeddedness is low in both; Adam Smith set the tone, postulating "a certain propensity in human nature . . . to truck, barter and exchange one thing for another," and assuming that in primitive society, with labor the only factor of production, people must have exchanged goods in proportion to their labor cost, as rational actors would. This view has gained new adherents as recent work in anthropology, political science, and history has converged with the "New Institutional Economics" to argue that in all periods, behavior that appears to result from political, social, or legal factors is better interpreted as the outcome of rational individuals pursuing their own self-interest.

My own view differs from both. Although I agree with the economists (and their fellow travelers) that the transition to modernity did not much change the level of embeddedness, I also argue that it has always been and remains substantial: less all-encompassing in the earlier period than claimed by "substantivists," "development theorists," and evolutionists, but more so in the later period than supposed by them or by economists.

Over- and Undersocialized Conceptions of Human Action

In his 1961 article, "The Oversocialized Conception of Man in Modern Sociology," Dennis Wrong complained of the tendency of sociologists to see people as so overwhelmingly sensitive to the opinions of others that they automatically obeyed generally agreed upon norms for behavior. To the extent this was a valid complaint, it resulted from sociologists' overreaction to the neglect of social effects in what Parsons (1937) called the "utilitarian tradition"—a tradition whose view of economic action I will call "under-

socialized." As Hirschman (1982) pointed out, traders in competitive markets are price-takers and thus interchangeable. The details of their social relations are irrelevant.

When the classical writers treated these relations at all, it was as a drag on perfect competition. Thus Adam Smith denounced the use of social occasions by traders to raise or fix prices. Implicitly he recognized that his image of competitive markets was at variance with a world where economic actors know one another personally well enough to collude.

A few recent economists have taken social relations as more than frictional drag. But they embrace a conception of social relations curiously similar to that criticized by Dennis Wrong as "oversocialized." So James Duesenberry (1960) quipped that "economics is all about how people make choices; sociology is all about how they don't have any choices to make"; and E. H. Phelps Brown (1977) described the "sociologists' approach to pay determination" as assuming people to act in "certain ways because to do so is customary, or an obligation, or the 'natural thing to do', or right and proper, or just and fair."

This conception of "social influences" is oversocialized because it assumes that people acquire customs, habits, or norms that they follow automatically and unconditionally; nearly all economists' treatment of "norms" has this flavor. But this brings into view an important theoretical irony: the oversocialized approach has in common with the undersocialized the assumption that actors are not influenced by existing social relations—that they are atomized. In the undersocialized account atomization results from the narrow pursuit of self-interest; in the oversocialized one—which originated as a corrective to the undersocialized—atomization results nevertheless because behavioral patterns are treated as having been internalized and thus unaffected by ongoing social relations.

This surprising convergence of under- and oversocialized views helps explain why economists who try to incorporate social influences on economic action fall so easily into oversocialized arguments. Thus, economists such as Michael Piore (1975) or Samuel Bowles and Herbert Gintis (1976) attribute distinctive styles of decision-making to members of different social classes, as the result either of class cultures or of each class's distinctive experience in the educational system. But this conception of how society influences individual economic action is too mechanical: once we know someone's social class, everything else in his behavior is automatic, since he is so well socialized—I would say "oversocialized."

I will thread my way between under- and oversocialized views by analyzing how action and institutions are embedded in concrete, ongoing systems of social relations. I first develop a general argument about "embeddedness" and then offer a series of empirical examples.[6]