The paradigm of economic sociology

Premises and promises

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This article presents the basic principles of economic sociology and shows that economic sociology can contribute in a fruitful way to the understanding of how the economy works. We do this by first outlining the paradigm of economic sociology and then giving a few brief examples of how economic sociology goes about concrete problem-solving. We conclude with some brief remarks on which direction we feel economic sociology should take in order to be improved.

The status of economic sociology

Economic sociology today lacks the clear status as a specific field of sociological inquiry. This, like everything else, has its specific history. One can thus look at U.S. sociology and note that neither the Chicago School nor the "golden fifties" of American sociology resulted in the kind of sustained analysis of the economy that came to characterize, say, urban problems or the family. The same, on the whole, is true for European sociology before and after WW II. Economics was left to the economists, and sociologists shied away from the topic. Sociologists might have thought that they studied all of society but what they looked at was, in Smelser's poignant formulation, more of "a grab-bag of left-overs"[1] from economics and political science.

Even if one grants that economic sociology has been slow in acquiring its own identity as a distinct field of sociological inquiry during the twentieth century, two things should be noted. First, economic sociology has a very strong theoretical tradition – from the classics onward – to lean on. And second, there exists a growing interest in the topic today that has resulted in a series of excellent studies. Add to this that the econ-

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omy in contemporary society is going through radical changes that baffle the economists[2] and that the economists are increasingly invading the domain of sociology,[3] and it will be clear that there are plenty of reasons today to revive what the classical sociologists called "economic sociology."[4]

In the last analysis, however, the study of economic sociology derives its raison d'etre from the fact that the economy constitutes a very important area in society and that sociology over the years has developed a series of theories and techniques that are well suited to the study of economics. We hope the time has now come when sociologists will decide to give economics their sustained attention. If they do so, it is our conviction that they will be amply rewarded because even if economic sociology is in need of reconstruction, it also holds the promise of becoming one of the most exciting areas of sociology in the near future.

Economic sociology: Today and yesterday

If we now turn to the intellectual history of economic sociology it should be stressed that Marx's *Das Kapital* and Weber's *Wirtschaft und Gesellschaft* are, first and foremost, sociological studies of the economy. For Marx, the economy is the central aspect of society around which all the others turn. Labor is the existential condition and the one that is ultimately responsible for the shape our lives assume. Weber was nearly as obsessed as Marx with economic questions but assigned a more independent status to other forces in society. As a consequence, he was able to perceive with more clarity the sociological limits of the economy as is evident from his succinct outline for what economic sociology should look like in chapter two of *Wirtschaft und Gesellschaft*, "Sociological Categories of Economic Action."[5] If we add to Marx's and Weber's writings *De la division du travail social* by Durkheim, *Philosophie des Geldes* by Simmel, and *Economy and Society* by Parsons and Smelser, it should be obvious that economic sociology has as good a theoretical foundation as it is possible for any field of sociological inquiry to have in the twentieth century.

As noted earlier, economic sociology did not develop very forcefully during the time after the classics. This is true despite interesting exceptions also for the period of the structural-functionalists. Talcott Parsons, Neil Smelser, and Wilbert E. Moore did indeed try to launch the topic but the opposing forces were too strong and instead the topic fragmented into fields such as stratification analysis, industrial sociology, and the like.[6]

During the paradigm crisis of the 1960s and early 1970s a great variety of sociological studies appeared that insisted on the centrality of economics in society's "totality." These were mainly written from the perspectives of women's studies, neo-Marxism, and Third World theories.[7] Simultaneously, however, important theoretical developments were made by economists, political scientists, and organization theorists. The various impulses came together in the mid-seventies and resulted in a number of excellent studies in economic sociology. To mention just a few: Fred Block, *The Origin of International Economic Disorder* (1977), Rosabeth Moss Kanter, *Men and Women of the Corporation* (1977), Gudmund Hernes, *Forhandlingsøkonomi og blandingsadministrasjon* (1978), Louise A. Tilly and Joan W. Scott, *Women, Work & Family* (1978), Ivar Berg (editor), *Sociological Perspectives on the Labor Market* (1981), Harry Makler, Alberto Martinelli, and Neil Smelser (editors), *The New International Economy* (1982), and Arthur Stinchcombe, *Economic Sociology* (1983). Though it might well be true that economic sociology is in need of a general theoretical reconstruction to deal with today's economic realities, the works since the mid-seventies must nevertheless be credited on several accounts. New topics have thus been introduced into economic sociology: the international economy,[8] the role of women in the economy,[9] the existence of labor markets as well as financial markets,[10] and the interaction between political and economic steering systems.[11] Sophisticated mathematical models for the use in economic sociology have been constructed and general sociological theories, such as network analysis, have been successfully introduced into economic sociology.[12]

A comparison of two paradigms: Neoclassical theory and economic sociology

Despite the progress during the last years, there is still reason to look at the basic principles of economic sociology. This is necessitated, first and foremost, by the fact that not enough sustained theoretical attention has been paid to economic sociology as a whole since the 1950s when Parsons and Smelser's *Economy and Society* appeared.

In this article we outline the paradigm of economic sociology by contrasting it to microeconomic theory. There are several advantages to looking simultaneously at the basic principles of microeconomics and of economic sociology. For one thing, it quickly brings out what is distinctive about economic sociology in relation to economic theory. It should also help to open a fruitful dialogue between economists and sociologists by showing that they after all are struggling with related problems. And finally, it highlights the kind of arguments that economic sociology will have to face if it is to gain acceptance, since neoclassical orthodoxy today has something of a monopoly on how to analyze economic problems.[13]

Microeconomics, it has been argued, is the closest that the social sciences have to a paradigm in Kuhn's sense.[14] It thus has a distinct research program that defines which problems to look at and how to go about analyzing them. The microeconomic paradigm has its origin in the new developments that took place in economic science in the 1870s when the labor theory of value was challenged and eventually replaced by marginal utility analysis.[15] Save for a decade or so when Keynesian macroeconomics attracted the most attention, neoclassical economics has dominated twentieth-century economics,[16] "The last decade," one can read in a recent issue of *American Economic Review*, "has seen an almost complete victory for the neoclassical school."[17]

Over the years neoclassical economics has developed a very impressive body of scientific theories and come to regard itself, in Paul Samuelson's words, as "indeed the queen of the social sciences."[18] The high quality of the work produced by economists is generally acknowledged in other social sciences but doubts have also been raised as to microeconomics' capacity to connect with empirical reality.[19] The mixture of enthusiasm, awe, and hesitation that microeconomics can inspire, is well reflected in the following quote by Gudmund Hernes:

> If I, in all friendliness, were to allow myself a frivolous analogy, I would liken neo-classical theory to a gothic cathedral. People have worked at it during many ages. Parts are romanesque, gothic, renaissance and baroque. The great spirits have constructed whole naves and channels on the cathedral. The lesser spirits have built towers and spires. Great processions of people have come to chisel out a beautiful inscription and to build an arch, a theorem which unites a tower with a sideship. Some have left behind gargoyles and some have only marked a stone with their name. All the energy expanded and all the individualistic labor are marked by the totality. The overarching structure is clear but no-one can grasp or really encompass all the details. People from distant disciplines travel like pilgrims to the cathedral, speak with a hushed voice once inside and usually kneel down in religious awe even if one or two scoundrels may break something off as a souvenir, which can be used to acquire status in some other discipline. Many a person is steadfast at work in the cathedral: Leontief has thus

> taken over Walras' old workroom and looks after the cross-vaults. Frisch has left behind a workshop filled with half-finished figures, which seven little dwarfs are busily working on. As in the period of the late renaissance there is also a Milton who detests everything which is not classically pure. But most eyes are directed at the tower: there Arrow is working away and, yes, he seems to want to build another tower. But one is tempted to ask a silent question: Should we be building the Gothic way today?[20]

Economic sociology is decidedly a less imposing edifice than microeconomic theory. And when we talk about it here in the sense of a "paradigm," we do this not so much in the sense that Kuhn has given the term but rather in that of Robert Merton in his well-known essay "The Sociology of Knowledge."[21] Like Merton, we shall thus use "paradigm" mainly to indicate the basic principles and problem-solving approaches that characterize economic sociology as a special field of sociological inquiry.

Points of divergence between the paradigms of neoclassical theory and economic sociology

To catch most of the significant differences between the way microeconomic theory and economic sociology look at economic reality, we have outlined seven points of divergence between the two (see Figure 1). In the presentation of the basic principles of economic sociology an effort has been made to draw on the more programmatic statements in economic sociology, among which we include not only the major works by Marx and Weber but also certain key texts by Thorstein Veblen, Talcott Parsons, Neil Smelser, Karl Polanyi, Gudmund Hernes, and Mark Granovetter.[22] When differences of opinion exist in these writings, we have chosen to highlight these as well as to indicate our own preferences. Little is to be gained by denying that economic sociology still faces, in Smelser's formulation "many unsolved mysteries."[23]

The concept of the actor: The separate utility maximizer versus the social actor. Microeconomic theory uses three kinds of actors: individuals, households, and firms. The two latter are often assumed, for purposes of analysis, to act like individuals, which means that they are unitary or unstructured ("black boxes").[24] The activities of households and firms are stylized and few in number because the scarcity of resources in combination with the maximization principle limit the spectrum of possible types of actions. The households and the firms are fundamentally separate from one another and mainly interact through the market mechanism in acts of buying and selling.

Fig. 1. The paradigms of neoclassical theory and economic sociology: a comparison.

	NEOCLASSICAL THEORY	ECONOMIC SOCIOLOGY
CONCEPT OF THE AUTHOR	individuals, households, and firms (*separate utility maximizer*)	individuals, groups, classes, institutions (*social actor*)
ARENA OF ACTION	any situation where choice and scarcity of resources are present; by preference the market (*separate economy*)	the economic system as part of society (*social economy*)
TYPES OF ECONOMIC ACTION	exclusively rational actions with emphasis on choice and maximization (*formal rationality*)	rational actions as well as other forms of economic action (*social rationality and social economic actions in general*)
RESULT OF ECONOMIC ACTIONS	tendency to equilibrium (*equilibrated harmony*)	tendency to more or less institutionalized yet tension-filled interest struggles (*tension-filled interest struggles*)
VIEW OF THE ANALYST	producer of scientific results (*objective outsider*)	producer of scientific results and member of society (*objective insider*)
CONCEPT OF TIME	stylized and stationary time concept; identical to action that is analyzed (*stationary and adaptive time concept*)	extended and variable time concept; goes beyond the action that is the focus of the analysis (*socio-historical time concept*)
GENERAL SCIENTIFIC METHOD	*predictions and explanations based on radical abstractions*	*descriptions and explanations based on empirically adjusted abstractions*

Many economists agree that the notion of separate utility maximizers presents serious problems of analysis. In a well-known article in the *Journal of Economic Literature* Lee E. Preston has noted that "...very few of the interactions between real firms and their host environments can be usefully formulated within the conventional (that is, neoclassical) framework."[25] To counteract problems of this type, economists have developed concepts such as that of "externalities," and also glanced at "generalized morality," "custom" and the like.[26]

Problems of this type are to a large extent avoided in economic sociology because it conceptualizes the actor as a social agent. In general, the assumption that the actor is social has several important consequences for the way economic sociology views economic processes. Here we shall discuss three of these: (1) that the actor is always connected to other actors and to the social environment; (2) that a broad spectrum of actors and actions must be taken into account; and (3) that contradictions in the behavior of the actors are to be expected. (Other implications of the social-actor assumption will be discussed below.)

That there exist complicated links between an economic actor and other actors as well as the social environment in general, is something that all strands of economic sociology agree upon. The idea has received its most succinct expression in the work of Karl Polanyi with its notion of "embeddedness." According to Polanyi, economic action without the "societal element" would be "bare bones"; it would have no "unity" or "stability" whatsoever.[27] In *The Great Transformation* Polanyi has attempted to show the terrible anarchy that developed in nineteenth-century England when the social foundations of the economy for a brief period crumbled. For Polanyi and for economic sociology, the idea that the economic actors are separate from society is unrealistic and the cause of many misunderstandings in neoclassical economics.

Because economic sociology in the words of Marx "set out from real, active men" in their concrete social surroundings, it by necessity encompasses a much broader set of actions and actors than mainstream economic theory.[28] Where, for instance, neoclassical theory has had to develop such forced concepts as "endogenous politicians"[29] to account for the economic actions by the state, economic sociology has from its beginnings included the state among the economic actors.[30] The same goes for actors such as trade unions, employers' organizations, and similar organizations.[31] Neither do there exist any good reasons for economic sociology not to acknowledge women as distinct economic actors, something that is more difficult to do in orthodox economic theory.[32] The only bottom line that economic sociology has to stick to is that it studies economic action that is social, that is, the actor "takes account of the behavior of others."[33]

By opening up the analysis to a greater variety of economic actors than neoclassical theory, economic sociology is forced to acknowledge that the behavior of the actors is exceedingly complex and often contradictory. In economic sociology it is usually not enough to see households and firms as just two economic actors and nothing else. There also exist actors within these actors and this has to be explicitly taken into account when the actions of households and firms are analyzed. The very multiplicity of actors on the same and different levels of social reality forces economic sociology to face the issue of contradictory behavior. "Role confict," "class struggle," "negotiated order," and "relative deprivation" are a few examples of the kind of concepts economic sociology necessarily must use in the analysis to handle problems of this type.

It can finally be noted that it is of course not only economic sociology but sociology in general that utilizes the concept of social actors. The specific task of economic sociology is thus to construct successful hypotheses about the different ways economic actors are embedded in social reality. Here much work still remains to be done even if one can point to the accomplishments in the classic tradition as well as to some recent contributions, such as Granovetter's attempt to flesh out the notion of embeddedness with the help of network analysis.[34] What is especially needed, in our opinion, is more imaginative models of a middle-range type that can ground economic sociology in concrete reality.

To give an example of such a model we shall briefly present Fredrik Barth's conceptual scheme in *The Role of the Entrepreneur in Social Change in Northern Norway.*[35] What Barth here tries to do is to construct a theory of how a local entrepreneur acts in a small community in an industrialized country with the help of concepts such as "niche," "resources," "restrictions," and "social costs." In order to exploit the "niche" – defined as the source of exploitation in relation to clients and competitors – the entrepreneur must have enough "resources," among which are included not only the conventional items but also contacts with bureaucrats, politicians, and the like. The "niche" and the "resources" together impose certain "restrictions" on the entrepreneur's behavior. The entrepreneur's choice of actions and general strategy are, in the final analysis, also determined by their "social cost" by which is meant various moral and social restraints such as, for instance, goodwill in the community. Barth's model, in conclusion, is a nice example of economic sociology because it cuts across the conventional borders in microeconomic analysis but retains the focus on the entrepreneur as an economic actor.

The arena of action: The separate economy versus the social economy. Economic action, according to neoclassical economics, takes place in its own separate space. Compared to the classical economists, who paid much attention to institutions and "disturbing causes," neoclassical thinkers have shown little interest in what lies outside the economic system and in how this can be "endogenized." In *Economic Theory in Retrospect*, Mark Blaug thus notes that "having marked the boundaries of economics, neoclassical writers openly confessed noncompetence outside that boundary and were satisfied to throw out a few commonsense conclusions and occasionally a suggestive insight."[36] It is also assumed in mainstream economics that the economic system is sufficient to itself. Present in the microeconomic paradigm is thus the notion that because a kind of "supreme autonomy" characterizes the economic system, society should adjust itself to what the economy demands and not vice versa.

Mainstream economics tends to identify the economy with the market or, more correctly, with what has been called "the hypothetical market."[37] The last decades have, however, also witnessed several attempts by economists to broaden considerably the traditional perspective by, for instance, looking at different economic systems.[38] Oliver Williamson has also succeeded in linking up the concept of the market to that of the firm through the notion of "transaction costs."[39] Williamson's analysis is reminiscent of the public-choice approach in the sense that both attempt to analyze social structures with the help of the microeconomic concept of rationality. In contrast to the latter approach, Williamson has, however, succeeded in extending the traditional concept of the economy by introducing the idea that markets and hierarchies are functional alternatives.

Economic sociology, in contrast to microeconomic theory, conceptualizes the economy as a *social economy*. Several implications follow from this approach that are worth mentioning. For one thing, the economy is seen as part of society and subordinate to the social system. There also exist distinct boundaries between the economy and the other parts of society. And finally, the economic system must be assumed to have its own distinct autonomy.

The assumption that the economy is part of society is basic to economic sociology. If one, like Polanyi once did, divides economic thinkers into those that see the economy as a "separate system" and those that view it as "one aspect of society," it would soon become evident that all economic sociologists belong to the latter category.[40]

If all economic sociologists agree that the economy is a part of society, the situation is different when it comes to conceptualizing the exact link between the economy and society. Weber is characteristically cautious on this point and is only willing to concede, for instance, that there exists an "elective affinity" between cultural values such as religion and the economy. Marx's position is difficult to nail down because his theory, as Schumpeter has stressed, is simultaneously economic and sociological; the key concepts and the major propositions are "both economic and sociological and carry the same meaning on both planes."[41] To summarize Marx's position, one could say that his view of the relation between the economy and the rest of society is profoundly historical, dialectical, and always insists on the centrality of labor.

Of all the works in the field, *Economy and Society* by Parsons and Smelser is the one that contains the most extensive discussion of how the economy is related to the rest of society. It is here assumed that any society must successfully address four problems. These are adaptation (A), goal-attainment (G), integration (I), and latency or pattern-maintenance (L). The social system, the authors argue, is made up of four analytical sub-systems of which the economy is one. The main task of the economy is to take care of society's need to adapt (A).

Another difficult question in economic sociology – and one which needs more discussion – concerns the autonomy of the economic system. Weber did see the economy as a fairly autonomous system of economic action but was vague on the topic. Marx, Veblen, and Polanyi were all involved in polemics with mainstream economic thought and probably spent more energy on the futility of sharply separating the economy from society than on outlining a stringent alternative to this view. It was really first with Parsons-Smelser, as Niklas Luhmann has noted, that a theoretical effort was made to outline a sociological concept of the economy as a totality.[42] The main idea in *Economy and Society*, as mentioned earlier, is that the economy can be conceptualized as a distinct subsystem that addresses the problem of adaptation. The economic system is subordinate to the social system as a whole and interacts with the three other subsystems through various input-output exchanges. The adaptive system, finally, can itself be subdivided according to the AGIL schema.

Parsons and Smelser's theory of how to conceptualize the autonomy of the economy is very formal and not really discussed enough to warrant either a firm approval or disapproval.[43] It must however be said that economic sociology stands to benefit very much from a renewed interest in the concept of the economic system and its autonomy. Such a concept would, for instance, be able to throw new light on topics such as stratification analysis, industrial sociology and labor-market sociology by integrating these into a new and meaningful totality. Exactly how a reconstructed concept of the economic system would look is, to repeat, unclear today. A few comments however can be made. First, it is clear that the concept of the economic system must be quite different from the one used in neoclassical economics. Clear lines also need to be drawn between the economy and the other subsystems in order to avoid having a concept of the economic system where the economy just fades into the rest of society at some undetermined point like in Polanyi's notion of "embeddedness." In addition to outlining clearly the parameters of economic action and the interaction between the economy and the other subsystems of society, it might also be worthwhile to center the new concept of the economy around the notion of actors' limited choices as, for instance, Luhmann[44] has suggested. This way the concept of the economic system would become truly dynamic and a healthy balance could be struck between "the undersocialized concept of man" in economic theory and "the oversocialized concept of man" that one frequently finds in the sociological literature, according to Granovetter.[45] Other building stones in a theory of a social economy might be the notion of social actors, the concept of social rationality, and the socio-historical time concept (discussed elsewhere).

The concept of rationality: Formal rationality versus social rationality. If one, with Smelser,[46] distinguishes between "formal rationality" and "social rationality," it is clear that the microeconomic concept of rationality belongs to the former category. In its most elementary formulation, the rationality concept means that firms and households choose the kind of action that maximizes their own self-interest; firms seek to maximize profits and households utility. "More advanced treatments," one can read in an overview of the literature, "note that the ability to detect indifference between market baskets of goods and the ability to choose consistently given a well-ordered preference function defines rationality in consumer theory, while rational firms must operate on their production function, choose least-cost combinations of inputs for each possible level of output, and choose the level of output which maximizes profits."[47]

The key elements in the microeconomic concept of rationality are few – correct *choice* based on *full information* in a situation of *scarce resources* – and this has led critics to argue that the neoclassical concept of rationality is empty. In an article with the telling title "Rational

Fools," Amartya Sen has claimed that "traditional theory has *too little* structure."[48] In a recent issue of *American Economic Review*, Albert O. Hirschman concurs with Sen and argues that if economic theory is to be able to capture more of reality, it will have to invest its basic concept with a more complex structure.[49] In this context, it should finally be mentioned that some economists have tried to remedy the deficiences in the microeconomic concept of rationality through notions such as "bounded rationality," "satisficing," and "x-efficiency."[50]

In a famous quote from *Foundations of Economic Action*, Paul Samuelson says that "many economists would separate economics from sociology upon the basis of rational or irrational behavior."[51] This opinion, however, shows at the most that many economists have read Pareto and little else in sociology. Closer to the truth is that most sociologists have not looked twice at the concept of rationality and do not find the distinction between rational and irrational behavior particularly relevant to their work. If we turn to economic sociology, the situation is somewhat different. Here discussions of the notion of rationality are common but the opinions about its usefulness are sharply divided.

Among the opponents to the formal concept of rationality in economic sociology are, first and foremost, many institutionalists and people like Polanyi and his followers. The attitude of Marx is more ambiguous. On the one hand, it is clear that Marx in his own work used a very rational method of analysis and that followers like Oskar Lange were positive to a modified concept of rationality.[52] On the other hand, one can also easily imagine Marx's sardonic comments if he had lived long enough to read the kind of definitions of the economy that one can find in works such as, for instance, that of Lord Robbins.[53]

Among the sociologists who have had a positive attitude to the concept of rationality (including the one used by the economists) are Max Weber, Talcott Parsons, and Neil Smelser. Weber's analysis of the notion of rationality constitutes more or less a chapter of its own in the history of the social sciences. To give a quick hint of the complexity as well as the scope of Weber's analysis, we have reproduced below an illustration from Habermas that tries to capture the manifold manifestations of Weber's notion of "occidental rationalism"[54] (see Figure 2). Parsons and Smelser have followed in the Weberian tradition but do not center their whole analyses around the concept of rationality. For them, it is just an important concept in the analysis of the economy.

Fig. 2. Forms of manifestation of occidental rationalism in the emergence of modernity according to Max Weber.

	Cognitive elements	Evaluative elements		Expressive elements
Culture	Modern natural science	Rational natural law	Protestant ethic	Autonomous art
Society	Scientific enterprise (universities, academies, laboratories)	University-based jurisprudence, specialized legal training	Religious associations	Artistic enterprise (production, trade, reception, art criticism)
	Capitalist economy	Modern governmental institutions	Bourgeois nuclear family	
Personality	Behavioral dispositions and value orientations			
	of the methodical conduct of life			of the countercultural life-style

Source: Jürgen Habermas, *The Theory of Communicative Action, Vol. 1. Reason and The Rationalization of Society*, p. 167.

Our own opinion in the debate about rationality is that economic sociology definitely needs to discuss the concept of rationality and try to reach a new assessment of its value. Mark Granovetter's statement that rational choice constitutes "a good working hypothesis" that always will be "problematical,"[55] pretty much sums up our attitude.

The main point, however, is that a sustained debate about rationality is needed today among economic sociologists. Some of the questions that need to be discussed are the following. Which are the more practical or methodological advantages to using the concept of rationality? How does rationality look from an empirical point of view? And can the concept of rationality be used to improve sociological theory construction? When questions of this type have been discussed more fully, economic sociology will be in a better position to pass final judgment on the usefulness of the concept of rationality.

As to the practical advantages to using the concept of rationality, there is for example the idea of Oskar Lange that assumptions of rationality lead to quicker discoveries in the social sciences. In describing the use of rationality as a "short-cut," Lange writes:

> The postulate of rationality... provides us with a most powerful tool for simplification of theoretical analysis. For, if a unit of decision acts rationally, its decision in any given situation can be predicted by mere application of the rules of logic (and of mathematics). In absence of rational action such prediction could be made only after painstaking empirical study of uniformities in the decision patterns of the unit.... Thus, the postulate of rationality is a short-cut to the discovery of laws governing the decisions of units and to the prediction of their actions under given circumstances.[56]

Weber uses a different argument from Lange's to show that it is useful from a methodological standpoint to begin the analysis with the assumption of rationality. The main idea here is that the structure of *any* social behavior is most conveniently analyzed if one (1) first decides what the rational course of action would have been, (2) then compares the actual course of action to the rational action, and (3) finally, focuses on why the deviation from the rational course of action took place. To illustrate with an example from *Wirtschaft und Gesellschaft*: "...a panic on the stock exchange can be most conveniently analyzed by attempting to determine first what the course of action would have been if it had not been influenced by irrational effects; it is then possible to introduce the irrational components as accounting for the deviation from this hypothetical course."[57] As opposed to Lange's idea of using rationality as a "short-cut" for the discovery of rational patterns of action, Weber is thus interested in the "gap" between the rational and the actual course of events. Both Lange's and Weber's suggestions for how the concept of rationality can be used for "methodological convenience," as Weber puts it, are in our opinion well-worth exploring.[58]

The second question about the concept of rationality that needs to be discussed concerns the empirical existence of rational action. On this point, Weber's work is of course very important even if it is clear that one should be weary of his tendency to expand the analysis of rationality into a kind of philosophy of history. His distinction between "formal" and "substantive" rationality in economic action is, on the other hand, evocative for a variety of reasons.[59] One of these is that moral values play an important role in any economy. Another is that the distinction between "formal" and "substantive" rationality points to the existence of different types of rationality as opposed to a single one as in economic theory. Especially Smelser has picked up on Weber's idea that there exist several kinds of rationalities in society and that these might very well be in conflict with one another. In "Reexamining the Parameters of Economic Activity" these themes are well developed and the article contains an interesting attempt by Smelser to reconstruct a conflict in *Wirtschaft und Gesellschaft* between two different types of rationality, that of the official economy ("economic rationality") and that of communally based associations ("communal rationality").[60]

The maybe most exciting aspect of the rationality concept concerns its possible use as a tool in sociological-theory construction. A major reason for this is that the notion of rationality, if handled correctly, might provide a solution to the old problem in sociology of simultaneously accounting for the autonomy of the actor and the influence of the social surroundings on his or her actions. The concept of rationality safeguards the notion of the actor's autonomy through its stress on the importance of choice. If this choice plus its parameters could be properly accounted for in sociological terms, the ship so-to-speak would be in harbor. The problem, of course, is more complex than that, but theories like Hernes's, which define institutions as "*rationality contexts*" (which "include" as well as "exclude" certain actions), seem quite promising.[61] One possibility would be to combine the idea that rationality is socially determined with the insights of game theory. An interesting attempt in this direction can be found in the work of Jon Elster.[62] He proposes that many important forms of social action can be analyzed according to a "two-step model" of rationality. One first has to determine which actions are at all possible. This first "filtering device" he labels "parametric rationality." Game theory can then be used to analyze which of the possible actions are most likely to be chosen ("strategic rationality"). According to Elster, "the two main theorists of rationality... are Max Weber and John von Neumann."[63]

In conclusion, it can be said that the concept of rationality deserves to become a key concept in economic sociology and to be discussed properly. Until now it has mainly been economists, political scientists and philosophers of science such as Jon Elster who have carried on the debate. If economic sociologists got into the discussion, they could probably contribute quite a bit to it because economic sociology as a field is extremely well situated for testing the usefulness of the notion of social rationality.

The result of individual economic actions: General equilibrium versus tension-filled interest struggles. In the classics of economic theory, ground rent was conceived in terms of marginal utility. The first great discovery of the 1870s was the idea that one could extend the notion of marginality to the demand side and thereby be in a position to tie together demand and supply into one single theoretical system, which could account for the formation of prices. Exactly how this was done – through the notion of "equilibrium" – was the second great discovery of modern economics.[64]

From its very beginnings, it was really the Anglo-American branch of marginalism – as opposed to the Austrian branch – that subscribed to the idea of equilibrium. Over the years, a series of arguments about market imperfections, disequilibrium, monopolisitic competition, and so on, have also been advanced that either modify or outright question the idea that a general equilibrium can automatically be reached.

Of the various criticisms that have been leveled at equilibrium theory, two quite general ones carry the most weight in our opinion. According to the first one, the ingenious models that have been proposed by Arrow et al. are unrealistic because they depict the workings of the economic system in such an incredibly smooth and idealized way:

> The "general equilibrium" model, as perfected by Arrow, Debreu, Koopmans et al., is a jewelled set of movements, a celestial clockwork, to use an old image of Laplace, in which perfect competition and optimal allocations operate as an Invisible Hand, except that the invisible hand is neither God, the principle of benevolence, nor the spontaneous adaptations of Nature, but a mathematical theorem.... It is a work of art, so compelling that one thinks of the celebrated pictures of Apelles who painted a cluster of grapes so realistic that the birds would come and pick at them. But is the model "real"?[65]

The second major argument in our opinion against equilibrium theory is that it totally excludes the concept of "power." In *Power in Economics,* one of the few books that raises questions of this type, K. W. Rothschild stresses that during the twentieth century economic theory has chosen to exclude power from the analysis:

> ....a traditional way of economic thinking and theorizing evolved, which rapidly advanced in explaining the mechanics of market adjustment and "equilibrium" under the impact of competitive forces, but which had little room for such factors as power, non-pecuniary motives, group behavior and the like. Qualms about the neglect of these "non-economic" factors were increasingly suppressed in view of the rapid specialization of science. Economics could be regarded as being responsible only for the "purely" economic phenomena while other influences – such as power – should be taken care of by sociologists or political scientists.[66]

From the viewpoint of economic sociology it is clear that no general equilibrium even vaguely reminiscent of the type that mainstream economics talks about exists in the economic system. Instead, the individual interactions in the economy lead to tensions and various forms of interest struggle. The way these struggles have been conceptualized in economic sociology varies quite a bit, and we shall quickly outline some of the main positions.

In Marx, the idea that a power struggle is going on in the economy has received its most forceful expression. As Marx saw it, the major struggles in the whole of society have their roots in the way the forces of production are operated and controlled by different groups and classes. The order that rules in the economic sphere – as well as in society as a whole – periodically breaks down, when the contradictory interests no longer can be reconciled.

Weber separates the spheres of economics and politics much more sharply than Marx; violence is thus by definition excluded from the concept of "economic action."[67] Yet, Weber's notion of the economic order differs markedly on two points from that of neoclassical economists. First, it is clear that in his *Wirtschaftssoziologie* the consumers are "price takers" and not "price givers."[68] And second, according to Weber "it is essential to include the criterion of power of control and disposal (*Verfügungsgewalt*) in the sociological conception of economic action, for no other reason than that at least a modern market economy (*Erwerbwirtschaft*) essentially consists in a complete network of exchange contracts, that is, in deliberate planned acquisitions of powers of control and disposal."[69] It can finally be said that the notion of the economy as a general system of exclusively rational actions is alien to Weber's universe, where rational actions always coexist uneasily with irrational, traditional, and affectual forms of action.

Thorstein Veblen felt that neoclassical economists were totally wrong in the assumption that "harmony" always tends to be established in the economy; this, he felt, was a very artificial assumption and he sarcastically labeled it "the standpoint of ceremonial adequacy."[70] Like the institutionalists that came after him, Veblen replaced the idea of harmonious balance with a much more dynamic concept, that of "cumulative causation." Veblen's keen sense for the element of power struggle in the economy has also been kept alive in the institutionalist tradition. In his presidential address in 1972 to the American Economic Association, John Kenneth Galbraith thus made the neglect of the concept of power in economic theory his major focus. Mainstream economic theory, he argued, is built on principles that lead to analyses in which "power... is excluded from the subject."[71]

In *Economy and Society* by Parsons and Smelser, the emphasis on struggle of interests plays a much more subdued role than in the other major works in economic sociology. Two points, however, need to be made. Parsons and Smelser, for one thing, always stress that tensions are inherent in the functioning of the social system as well as in its subsystems. And when Parsons and Smelser talk of the equilibrium of the social system, it is clear that they "emphasiz(e) the priority of a state of equilibrium for the society as a whole over that of the economy considered in isolation."[72]

From this account of the way the concepts of tension and power have been treated in the various brands of economic sociology, it is clear that a consensus does not exist on the question of how one is to characterize the general state of the economic system. In our opinion, no single one of the various theorists in economic sociology has been able to advance successfully a theory of how the economic system operates. (See in this context also our discussion of the autonomy of the economic system above.) If one were allowed an eclectic solution, our choice would be (1) to follow Marx in his great realism as to the brutality and ruthlessness or sheer inefficiency with which the economic system works; (2) to pick up on Weber's ideas that the rationality of an economic system is historically determined and that there exists a specific form of power in the economic system that is not to be confused theoretically with those that exist in other areas of society; and (3) to follow Parsons and Smelser in their effort to construct specific theories for how the economic system interacts with the other subsystems of society.

Eclectic solutions, however, are usually bad because they rest on the illusion that a few good parts add up to a satisfactory whole. In addition, economic realities have changed so drastically since WW II both on the national and the international level that it is doubtful that an adequate solution to our problem can be found in the older works in economic sociology. One would probably do better to keep one's eyes glued on present-day work, such as Lindblom's and Hernes's imaginative theories of how economics and politics have come to meld into one another.[73]

The view of the analyst: The objective outsider versus the objective insider. Paul Samuelson has emphasized that:

> the fact must be faced that economic issues are close to everybody emotionally. Blood pressures rise and voices become shrill whenever deep-seated beliefs and prejudices are involved, and some of these are thinly veiled rationalizations of special economic interests.[74]

One can, however, ask the question whether economics as a science is equipped to handle the problem of veiled rationalizations and rising blood pressures. The answer must be that twentieth-century economics has had great difficulties in dealing with such questions as ideology and value judgments. Its problems, to no small extent, are due to its view of the economist as an "objective outsider," that is, as a person who is separate from the reality he or she is studying.

It would seem in retrospect that many nineteenth-century economists dealt more successfully with the issue of the researcher as an objective outsider than is the case with their twentieth-century colleagues. The generation of British economists who were the first to lay down the basic methodological principles of economics, thus accepted a firm distinction between economics as a "science" and as an "art" and also demanded that the economist should not confuse his roles as "a pure economist" and as "a social philosopher."[75] Mark Blaug, writing from the perspective of a century later, notes with raised eyebrows that Nassau Senior and John Stuart Mill "held the now surprising view that the economist cannot advise qua economist, not even if the science of economics is supplemented by appropriate value judgments, and Senior went so far at one point in his life as to deny that economists should ever give advice."[76]

During the twentieth century, however, neoclassical economists have set aside the cautious attitude of the British economists, and Senior's opinion that economists should never give advice would probably seem quite bizarre to many of today's economists. Calls from within the profession to take a closer look at the way value judgments and science are mixed together have usually been ignored and are definitely not popular. A case in point is Myrdal's *The Political Element in the Development of Economic Theory*, a book that is rarely referred to in mainstream economics, and when quoted, usually accompanied by disparaging remarks.[77] Schumpeter's call in *History of Economic Analysis* for economists to develop "a set of rules by which to locate, diagnose and eliminate ideological delusion"[78] has also largely gone unheeded.[79] The result is that economics has become more politicized – and hence unscientific – than it needs to be.

Sociology has a considerably more realistic self-image than economics, something that is connected to its view of the researcher as part of the reality he or she studies. There also exists a much stronger tradition in sociology than in economics to take a critical view of what is being produced in the prefession. While, for instance, "the very notion of ideology is threatening (to economists),"[80] it is an accepted concept in sociology and very much used.[81]

Given that the sociological tradition is more congenial than the economic tradition to understanding the social dimensions of economic theories and the economic tradition, one would expect economic sociology to have produced quite a number of studies on the role of economists in politics, on the formation of different kind of economic ideologies, and so on. This, however, is not the case. There exists of course an awareness in the standard works in economic sociology that the economist and economic theories are products of their social surroundings and also some brief sections to that effect – but that is about all.

To initiate critical studies of this type is an urgent concern for today's economic sociology. Good research could probably be produced fairly quickly because such fields as political sociology, the sociology of knowledge, and the sociology of science have developed a number of concepts and middle-range theories that can probably be used without too many modifications in economic sociology.[82] It is also an area of research where economic sociology is in a position to influence economics in a positive way by helping it turn a more self-critical eye on its own activities. The present confusion in the economic profession about economics as a "science" and as an "art" will only damage it in the long run.

The concept of time: Stationary-adaptive time versus socio-historical time. The time concept constitutes one of the most difficult and also most neglected issues in the social sciences. When we venture to discuss it here, it is simply to bring out a few more important differences between the paradigms of microeconomics and of economic sociology. The labels we have chosen for the respective approaches – "stationary-adaptive time" and "socio-historical time" – are descriptive in a general sense and nothing else.

There are two aspects of the microeconomic concept of time that are relevant for our purposes. The first concerns the way the temporal dimension of the very unit of analysis is constructed; the second relates to how the same unit of analysis is isolated from what lies before it in time. The former aspect of the neoclassical concept of time has been called "operational" by Mark Blaug and basically denotes an adaptive movement within the framework of a stationary analysis.[83] "Although the terminology employed conveys an air of clock time," Blaug notes apropos Marshall who initiated this concept of time in modern economics, "the impression is deceiving: periods are short or long, not according to the revolving hands of the clock, but according to the partial or the complete adaptions of producers to changing circumstances."[84]

The second aspect of the microeconomic concept of time involves the fact that the unit of analysis is seen as perfectly sufficient to itself and is usually so narrowly constructed that "the passage of time itself... (is) placed in the pound of *ceteris paribus.*"[85] To analyze a problem it is hence not necessary to trace the "history" of the economic actions in question; a kind of flashlight picture, which is then manipulated in the darkroom, is seen as perfectly sufficient.

In economic sociology, as in sociology in general, the analysis of time has played an important role in so far as *the past* has been stressed. Veblen thus emphasizes the "genetic" and "cumulative" dimensions of economic life. So does Weber and maybe even more so Marx. Schumpeter has admiringly compared Marx's way of simultaneously handling the diachronic and synchronic dimensions of economic analysis to that of mainstream economists:

> Economists always have either done work in economic history or else used the historical works of others. But the facts of economic history were assigned in a separate compartment. They entered, if at all, merely in the role of illustrations. They mixed with it only mechanically. Now Marx' mixture is a chemical one; that is to say, he introduced them into the very argument that produces results.[86]

Less attention has been paid in economic sociology to the way *the future* influences decisions in economic life. An exception or two however exist, such as Niklas Luhmann's brilliant essay "The Economy as a Social System." It is here suggested that it is "time" rather than "need" that characterizes the economy as such, because economic actions consist of decisions to defer satisfaction and simultaneously make sure that it will take place in the future.[87] An empirical illustration of how the future informs the present can also be found in Sverre Lysgaard's *Arbeiderkollektivet*, a very interesting work whose translation is long overdue. The author here shows that what ties a worker to the collective on the factory level is not his or her past in a union or roots in a specific locality as much as the perspective on the future; the longer an employer expects to stay in a job, the more willing he or she is to join and support the workers' collective.[88]

It should finally be noted that economic sociology needs to pay more attention to the notion of time, especially to the way uncertainty about the future structures many economic decisions. One angle, which could be pursued, would be to look at time in relation to *trust*. That trust is very important in economic life, as well as in social life in general, is today being increasingly realized in sociology.[89]

General scientific method: Predictions based on radical abstractions versus descriptions and explanations based on empirically adjusted abstractions. We shall conclude our comparison of the two paradigms by contrasting their general modes of analysis.[90] Since they belong to two different traditions in the social sciences, microeconomic theory and economic sociology have quite divergent views on several important points when it comes to general methodology. Two of the more substantive issues concern the role abstractions should play in the analysis and what constitutes a good analysis in general. Economic sociology, for its part, makes use of abstractions mainly to ground the analysis better in empirical reality and to produce solid descriptions and explanations. Microeconomic theory, on the other hand, is characterized by a more analytical and radical approach to abstractions and holds that a good analysis is one that makes correct predictions.

The sharply different attitudes to abstractions that can be found in microeconomic theory and economic sociology became apparent during the so-called *Methodenstreit*, which took place in Germany but which in one form or another also was played out in England, France, and the United States.[91] The position that Carl Menger and some other economists took, was that economic theory must be constructed on the basis of analytical abstractions and has little to gain from an analysis of historical facts. This methodological stance is still very much alive in microeconomic theory and is reflected, among other things, in its hostility to the institutionalists who are seen as unable to explain anything at all and only interested in unscientific descriptions.[92]

The sociological response to the *Methodenstreit* was formulated by Weber.[93] His position can be summarized as a kind of compromise, whose main point was that analytical abstractions must be used during the initial stage of the sociological analysis and then be adjusted to fit empirical reality better. In broad lines, Weber's argument is not too different from that of Marx. In the latter's method of "successive concretization," as outlined most clearly in the *Grundrisse*, one also starts out with analytical abstractions that are then gradually adjusted and expanded to fit concrete facts.[94] Of the economic sociologists that came after Marx and Weber, it is especially Parsons who has insisted on the need for sociology to use analytical abstractions.[95] Parson's hostility to the institutionalist kind of analysis is undisguised and to him it tends, like much of economic history, directly to "theoretical nihilism."[96]

As already indicated, some economic sociologists – Veblen for one – have doubted the usefulness of the more radical kind of abstractions. In this they are not alone; many contemporary sociologists probably feel that analytical abstractions is something to stay away from and that the analysis should stick close to the empirical facts from the beginning. This attitude is partly based on a misunderstanding of the way analytical abstractions are to be used in sociology according to Marx, Weber, and Parsons. The point is that the initial analytical abstraction must be followed by a series of steps that brings the analysis close to the empirical and historical reality. We shall not speculate if sociology in general will change its opinion on this issue. In economic sociology, however, the more analytical approach already has a fairly strong tradition, which in our opinion is well-worth defending and expanding upon.

A second point on which mainstream economics and economic sociology part company, concerns the role description, explanation, and prediction should play in the analysis. "Since the days of Adam Smith," we can read in Blaug's *Economic Theory in Retrospect*, "economics has consisted of the manipulation of a priori assumptions, derived either from introspection or from causal empirical observations, in the production of theories or hypotheses yielding predictions about events in the real world."[97] The concept of explanation is closely connected to that of prediction in economic theory even if the exact link between the two is a much debated question.[98] The notion of description has, on the other hand, received very little attention by economists.[99] In sociology, the emphasis has by tradition been on description and explanation; prediction has played little, if any role.[100] Much ingenuity has been used to develop rigorous methods for data collection and to gather empirical facts about various aspects of society. The explanations that have been advanced have, however, often been of the kind that Robert Merton calls "*post factum* sociological interpretations."[101] By this he means the kind of explanations that are produced *after* the facts have been collected. Merton is critical of this way of doing sociology because he feels that a "disarming feature of this procedure is that the explanations are indeed consistent with the given set of observations."[102] If the first explanation that is advanced turns out to be wrong, another one that "fits the facts" can easily be found. Merton suggests an alternative model of explanation, where the concept of prediction plays more of a role:

> The more precise the inferences (predictions) that can be drawn from a theory, the less likelihood of *alternative* hypotheses which will be adequate to these. In other words, precise predictions and data serve to restore the *empirical* bearing upon research of the *logical* fallacy of affirming the consequent.[103]

Merton's reasoning is interesting because it raises the question of whether the concept of explanation that is often used in sociology is rather weak and should be strengthened by bringing in the notion of prediction. Economic sociology, with its interest in the idea of rationality and economic methodology in general, is ideally suited to take up a discussion of this type. We therefore end with a few general comments on what an adequate concept of prediction could look like in economic sociology.

Our first point is that a discussion is needed of the various ways in which the notion of prediction has been conceptualized in economic theory. In mainstream economics prediction has been used to do "prognoses" as well as "real predictions." In econometrics, for instance, one is basically interested in prognoses. The difference between the two approaches is that prognoses only say "what" will happen while real predictions also answer "why." This is analogous to the way the notion of description has been handled in sociology (see Figure 3).

A second point to discuss would be whether economic theory has succeeded in striking a proper balance between what could be called "general predictions" and "exact predictions." The distinction between the two is well brought out by Morgenstern in his article "Description, Prediction and Normative Theory":

> (1) Prediction is possible "in the large" on the basis of *general theorems*; that is the implied essence of a theorem;
>
> (2) Historical-concrete-prognosis "in the small" is in general impossible in economics.[104]

It is clear that sociology as little as economics or any other social science can predict what will happen with great precision ("exact prediction").

Fig. 3. Description, prediction, and explanation.

	Non-explanatory	Explanatory
Description	1	2
Prediction	3	4

Note: 3 would be a "prognosis" while 4 is a "real prediction." Merton's "*post factum* sociological interpretations" are close to 1 while 2 is a sociological explanation more in tune with Merton's alternative.

But maybe economic sociology could develop a more adequate concept of "general prediction" than microeconomic theory by trying to combine analytical assumptions with generalizations based on historical evidence. By omitting practically all social influences, it should be noted, microeconomic theory is forced to make exceedingly abstract and general predictions; economic sociology, if handled properly, might do better because it is based on a social concept of the economy.

The concept of prediction is complex and not really suited for a discussion on a few pages together with a host of other questions as we have done in this article. We have, however, wanted to raise the question of prediction in order to point out that it is an interesting topic, which deserves to be on the agenda of economic sociology when it today is trying to regain momentum.

Two concrete examples of economic sociology

An unbiased observer would probably agree that the paradigm of economic sociology is based on fairly straightforward and reasonable sociological principles. It must also be acknowledged that there exist quite a few "blind spots" in conventional economic theory and that economic sociology has little difficulty in pinpointing these. In the last instance, however, economic sociology will have to provide concrete analyses of important economic phenomena if it is to gain acceptance as a viable alternative to conventional economic theory. To show that economic sociology is capable of doing this, we shall conclude this article by briefly analyzing two current phenomena with the help of economic sociology. The two topics we have chosen are the new type of managerial philosophy, which has emerged during the last few years, and the Swedish wage-earners' funds.

The "new managerial philosophies"

During the 1960s and early 1970s an increasing amount of attention was focused on the need to democratize the workplace. Today, however, the climate of opinion has changed and one example of this is the popularity of a new type of managerial philosophy, which has found an expression in such works as William G. Ouchi, *Theory Z*, Terrence E. Deal and Allan A. Kennedy, *Corporate Cultures*, and Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence.*[105] The main message of these works is that a company, in order to be successful, must develop a strong sense of self-motivation among its employees. The managers are no longer supposed to just take care of the business side; the key to real success ("excellence") is to instill a sense of purpose in the employees and thereby get them to put in that extra amount of effort that sets a company apart from its competitors. In the Nordic countries especially the Scandinavian Airlines System (SAS) and its dynamic head Jan Carlzon have become symbols for the idea that a firm that can make its employees truly enthusiastic also will succeed financially. At the moment, quite a few Swedish enterprises are trying to run their operations on the basis of the "new managerial philosophies."[106]

The kind of ideas one can find in *Theory Z, Corporate Cultures*, and *In Search of Excellence* may seem to constitute an ideology in the classic sense of the word, but it would be wrong not to acknowledge that they express a very distinct reality as well. The main scientific task in an analysis of the "new managerial philosophies" would be to understand theoretically this reality and to document its empirical existence. As far as we know, no such analysis exists today. We shall therefore indicate how such an analysis could be carried out from the viewpoints of first neoclassical economics and then economic sociology.

The neoclassical theory of the firm, which originates with the work of Cournot in the 1830s, has as its central assumption that "businessmen strive to maximize money profits subject to the constraints of technology and the prevailing pattern of demand."[107] Because the firm itself is treated as a "black box," little of interest can be said about the "new managerial philosophies" from this perspective.

During the last thirty years a growing amount of criticism has been directed at the orthodox theory of the firm, all of which argue basically that this theory is unable to explain the way firms actually operate. Several interesting attempts have also been made to reconstruct the neoclassical theory of the firm, and we shall here look at some of these in order to find out whether they can be of assistance in understanding the "new managerial philosophies." The ones we have chosen are the analyses by Coase, Alchian and Demsetz, and Williamson.[108] These three analyses are generally considered to constitute the most promising alternatives to the orthodox theory of the firm.

Coase's main purpose in "The Nature of the Firm" is to bridge the gap in economic theory between the assumption that resources in the economic system are allocated by means of the price mechanism and the finding that the allocation within the firm is dependent on a "coordinator." Coase's answer to this problem is to suggest that there is a cost of using the price mechanism:

> The most obvious cost of "organizing" production through the price mechanism is that of discovering what the relevant prices are... The cost of negotiating and concluding a separate contract for each exchange transaction which takes place on a market must also be taken into account.[109]

From this perspective, markets and firms emerge as *functional alternatives*; the price mechanism – or, more precisely, the cost of using the price mechanism – determines whether the market or a firm will be used. The size of the firm, it can be added, also depends on the principle of decreasing returns via the mechanism of coordination.

The theory outlined by Coase represents a skillful attempt to open up the "black box" of the firm in a way that is consistent with the basic principles of neoclassical economics. It is doubtful, however, whether his argument can be used to further the understanding of the "new managerial philosophies." The main reason for this is that Coase in the last instance depicts the inside of the firm in terms of functional expediency. That a firm's productivity is dependent, among other things, on the *interaction* among the people working in an organization, eludes him.

In Williamson's "transaction cost" approach, Coase's idea of firms and markets as functional alternatives is further elaborated.[110] Williamson also proposes to analyze the internal structure of the firm with the help of "a more self-conscious attention to human nature as we know it."[111] By this he primarily means that the employees are subject to bounded rationality and also that some of them are given to opportunism. Apart from the fact that Williamson's attempt to analyze the internal structure of the firm is psychological rather than sociological in nature (something that can be easily corrected), his theory is not particularly well suited to unlock the secrets of the "new managerial philosophies." The reason for this, briefly stated, is that his theory only covers situations where employees do not work as hard as they are supposed to do. That a happy or a pepped-up employee might want to work extra hard under certain conditions – the focus of the "new managerial philosophies" – is not considered.

Alchian and Demsetz, as opposed to Coase and Williamson, do pay attention to the situation where employees work extra hard in the sense that they stress the voluntary aspect of the employees' behavior. Management difficulties with shirking and keeping the employees from willfully lowering production are thus solved, according to Alchian and Demsetz, by the fact that management enters into a perfectly voluntary contract with each employee. The firm, they stress, "has no power of fiat, no disciplinary action any different in the slightest degree from ordinary market contracting between any two people."[112] By eliminating practically all of the actual social interactions that do go on in any firm, Alchian and Demsetz, however, also reduce their chances of accounting for phenomena other than shirking and the like. Why management would like an employee to put his or her whole soul into a company or to be totally emerged in its "culture," thus eludes also these two thinkers.

How then would economic sociology go about analyzing the "new managerial philosophies"? One can, of course, imagine several different approaches. All, however, would have to pay attention to at least two central facts – the positive role that social interaction must play for a firm to be successful and the fact that management has to produce a profit. We shall highlight these two elements and suggest what an analysis from the viewpoint of economic sociology would look like. In this task we shall draw on Mark Granovetter's theory of the role that social networks play in the economy and on Samuel Bowles's attempt to construct a Marxian microtheory in economics.[113]

According to Granovetter, the neoclassical emphasis on the "separate actor" fails to acknowledge the fact that all economic interactions usually take place in a complex social situation, where the actors are related to each other in intricate social networks. As opposed to Coase et al., Granovetter thus makes room for interpretations not only of phenomena such as opportunism and the like but also for their "opposites," which the "new managerial philosophies" are emphasizing. Granovetter's idea that the key to many economic phenomena resides in networks of a limited size, is actually quite congenial to analyzing the new managerial efforts to increase production through various self-energizing measures since these, as a rule, imply the creation of small and very cohesive groups of employees.

Granovetter's analysis can thus help to explain what some employees find valuable in the "new managerial philosophies": the pleasure of being part of an active social network, the joy of collective purpose, and so on. It however, has less to say about why management is favorable to these philosophies. Here it might be useful to complement Granovetter's ideas with Samuel Bowles's attempt to develop a Marxian microeconomic theory. According to Bowles's analysis, which is explicitly launched as an alternative to the "neo-Hobbesian" theories of authors like Williamson, there exists a conflict in capitalist firms over the intensity of labor; "the employer can do better than to simply hire workers and let them work as they please."[114] The reason for this conflict is that the employer pays for *the time of work* as opposed to the *amount of work* ("labor power" versus "labor" in Marx' terminology). That the "new managerial philosophies" with their emphasis on highly self-motivated employees would be a perfect solution to this conflict, is obvious. With no cost for additional supervision, the employees can be made not only to work hard but *extra hard* – a nice bonus for the management.

One would probably have to add a few bits and pieces to Granovetter's and Bowles's analyses in order to produce a full understanding of the reality behind the "new managerial philosophies." Books like *In Search of Excellence* contain, for example, strong elements of narcissism and individualism. However these elements – and this is the only point we are trying to make here – can be given novel and interesting interpretations with the help of economic sociology.

Theories of "economic democracy": Workers' self-management and wage-earners' funds

Becaue the "new managerial philosophies" offer a somewhat manipulative solution to the motivational dilemma involved in trying to satisfy both management and employees, the question emerges whether a solution to the same dilemma can be found that is pro-labor rather than pro-capitalist in tenor. And would it be equally possible to address and to answer this kind of question within the theoretical framework of neoclassical microeconomics as within the framework of economic sociology?

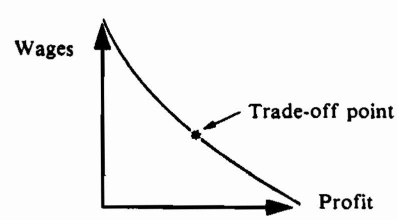
In mainstream economics the mutual enjoyment of "excellence" of management and labor does not figure at all. Labor is a factor of production with a certain cost that imposes constraints on profit-making and capital accumulation. Owners of capital and management on the one hand and labor on the other are represented by variables – profits and wages – and their interrelations can typically be represented by a curve such as the one in Figure 4. On this curve a trade-off point can be established, whose location is determined by the relative bargaining strength of capital and labor, that is, by an exogenous variable.

In this kind of economic analysis the main actors of the economy are represented, as it were, by variables. There is no need for the actors themselves to appear in the formal part of the analysis; but their relative strength may be taken into account.

The question emerging on this point is whether it is ever necessary to make explicit reference to real social actors in microeconomic model building? For an answer let us look at one of the most enlightening analyses of the relation between capital and labor, namely Kelvin Lancaster's paper on the "dynamic inefficiency of capitalism."[115] In this analysis Lancaster argues that labor employed by capital hesitates to apply wage restraint in a situation where there is no trust in the willingness of "capitalists" to invest rather than to consume; capitalists hesitate to invest, because they fear that strikes would offset the gains that otherwise might have ensued.

This goes a little bit further than economic models, which do not allow actors to enter the stage, properly speaking, but only allow their representation by variables. Quite obviously, the situation depicted by Lancaster is a game situation where psychological factors of trust and distrust have a great impact; and these psychological factors certainly belong to the actor level of analysis. But the emergence and the significance

Fig. 4. The trade-off function between wages and profit.



of these psychological factors depend in their turn on the structural factors involved, or on the social relations of production, as a Marxist would put it.

Assume that a stable and trustworthy "historical compromise" has been formed between labor and capital in a particular country. Then the psychological factor of mutual distrust assumed to operate in the situation analyzed by Lancaster would not be present to the same extent. On closer scrutiny of this particular "historical compromise" it may turn out that a certain sharing of responsibilities is involved, which destroys a clear-cut picture of capital and labor as exclusive "bearers" of distinctly different and contradictory processes. In this specific situation the usual dimensions of conflict between labor and capital may be overlayered with a certain number of "criss-cross" relationships, to borrow a term from Lewis Coser's sociological theory of conflict. Here is thus a case where the actors cannot be left out of the picture as in orthodox economic analysis. They can no longer simply be represented by variables and processes, and the reason is that the actors do not unambigusly "belong" to one particular process but that each actor is involved in several processes and even in contradictory ones. This means that the conflicts in question no longer take place exclusively *between* categories of actors represented by variables involved in trade-off relationships but *within* these actors as well.

Let us look at a second example. Imagine a collective profit-sharing scheme such as the wage-earners' funds recently legislated in Sweden.[116] Here labor becomes involved as collective shareholders on the side of capital, and capitalists are thus forced to share its previously exclusive power over the use of capital with collective labor. This kind of profit-sharing scheme is a good example of actors straddling contradictory processes that cannot be analyzed theoretically without bringing the actors into the picture (as well as the structures that have brought about this straddling type of relationship). Once we have a straddling relationship of labor to capital, this can be expected to have a significant impact on the parameters of the wage/profit trade-off. One possible outcome that is likely to ensue is the following.

If labor knew that it would attain control over part of the "excess" profit produced by restraint on its part, it would be more willing to show such restraint. In other words, collective labor could afford to be more tolerant to letting an increasing amount of profit go to the capitalists, if labor itself increasingly becomes a collective capitalist. In this situation capitalists would feel more certain about the loyalty of collective labor to invested capital, and as a result investments are likely to increase. At least part of the "dynamic inefficiency" of capitalism as we know it today, according to Kelvin Lancaster, would thereby be removed. Perhaps also other manifestations of the contradictions of the capitalist order, such as stagflation, could be partly eliminated in a similar manner.

In theories of workers' self-management this kind of argument has been developed even further by Branko Horvat, Jaroslav Vanek and others.[117] Many of these theoretical developments have taken off from neoclassical microeconomic theory, and then changed some of the conventional assumptions and restrictions placed on such theory, for instance by stipulating changes in the "social relations of production," that is, in the ownership of the means of production. Labor is thus redefined from being a "factor of production" to being a "rational and maximizing economic agent," and so forth. Even if such extensions of neoclassical economic theory have their obvious limitations, we think that these attempts provide suitable starting-points for developing an approach that is closer to economic sociology. But the transition from various kinds of sociologically guided extensions of neoclassical theory to a more full-fledged economic-sociological approach to problems of capital-labor relations involves many other possibilities.

Let us look, for instance, at the assumptions made by one of the present authors about certain differences between the incentive structures of capitalists and laborers.[118] The reasons why the incentive structures between actors related to capital and to labor are fundamentally different are structural in nature and not psychological. The main incentive of capital owners is profit, usually stable and predictable profits. To the workers in direct production profitability is certainly also an important incentive or at least an indirect one because profitable companies are more likely to pay reasonable wages. However, workers also have other incentives related to their place of work, such as stability of employment, quality of working-life, but also prices of commodities (which constitute a larger portion of the total budget of workers than of capitalists), etc. If one assumes that workers are as rational decision-makers as capitalists, then the rationality of labor, because of its concern with a larger number of dimensions of decision-making, becomes a *multi-dimensional rationality*, while the rationality of capital remains *one-dimensional*. A one-dimensional rationality in a world of multi-dimensional problems and problems, pay-offs and externalities, constitutes a contradiction that finds no room in neoclassical microeconomic theory; but the concepts of incentives and rationality basic to this argument are indeed derived from neoclassical theory.

If we move a step closer to the sociological end of the spectrum from neoclassical theory to economic sociology, we can find theories that expound notions rather similar to our distinction between one-dimensional and multi-dimensional rationality, but that are derived more directly from sociological concepts of actors and organizations. Offe and Wiesenthal, for instance, maintain that the power of capital, as manifested in the operation of the competitive market, can exist without the help of organizations, whereas the power of labor can only exist if there is organization.[119] A corollary of this argument is that capitalists basically do not need the kind of collective identity required for the formation of a common organization, whereas laborers need such a collective identity in order to overcome the separation of their individual fates and to face the costs of coming together collectively to articulate and defend their interests. According to Offe and Wiesenthal, it is not necessary for capitalists to consult each other to reach a common understanding of their true interests, because their consciousness is "monological" by virtue of its concentration on one single goal – the maximization of profit. This one-dimensional consciousness corresponds to what we have called the one-dimensional rationality of capital. The structural position of laborers, however, makes it necessary for them to enter into a "dialogue" (presumably both internal and external) in order to aggregate their various interests into one common interest. In short, it takes much more communicative and organizational effort for labor than for capital to identify, develop, and sustain their common class interest, which, in our interpretation, is characterized by a multi-dimensional rationality. Labor emerges as a "social actor," not only as an "economic man."

Obviously, the notions of Offe and Wiesenthal enrich the kind of theoretical formulations needed to address the dilemmas of conflict between actors related to capital and labor respectively. What we have here is more than just a conflict of interests – it is a conflict between class-specific types of consciousness and between different organizational needs and forms.

So far we have attempted to show that both neoclassical economic theory, suitably supplemented and revised, and economic sociology can theoretically address the problems of the capital-labor relation from the vantage points of labor organizations looking for new forms of "economic democracy" as an alternative to the "new management philosophies." In the concluding part of this section we contrast an orthodox application of microeconomic theory to the problems of the capital-labor relation on the one hand, and a broader macrosociological treatment on the other.

In a recent treatment of wage formation and economic stabilization, a group of Swedish economists[120] have indicated that the rapidly rising costs of the public welfare sector in Sweden – and the imbalance thereby created in the Swedish economy – can be rectified only by drastic changes in the Swedish system of wage-negotiations and in the prevailing organization of unemployment insurance. According to these economists, the centralized character of wage-negotiations in Sweden in combination with the enormous organizational strength of Swedish trade unions have led to excessive and unrealistic wage demands, to destructive strikes, lockouts, and so on. It is claimed that the famous "Swedish model" of labor-market peace and restraint has broken down. As a remedy, a decentralization of wage negotiations is recommended, particularly in the public sector. Union power becomes much weaker at the level of industrial branches (*förbundsnivån*, in Swedish), and at the level of local unions. By decentralizing wage-negotiations to these levels, the centralized union "monopolies" and "oligopolies" will be broken down, and forces of supply and demand on the labor market will be more concretely felt by those involved in negotiations. To make market forces even more visible, these economists propose that state financing of unemployment insurance be reduced to a minimum. Local insurance schemes with local financing, it is argued, should become the rule in order to make the threat of unemployment more tangible, thereby providing "incentives" for the workers to accept lower wages. In addition, several of these economists propose a competitive privatization of health care, educational institutions and other parts of the public sector so that the "real costs" of these collective goods will become better known to the average citizen, thus improving "consumer rationality" and overall economic efficiency. Private competition is assumed to contribute to greater efficiency also in areas such as the delivery of health services. Even if Calmfors et al. use concepts like "union power," this does not mean that their analysis has moved beyond the limits of neoclassical theory. On the contrary, by recommending the destruction of union power, the authors indicate that they wish social reality to come closer to neoclassical theory.

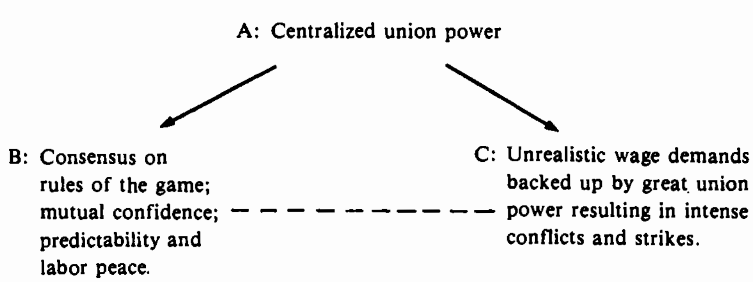
In the ongoing public debate of this neoliberal approach to public services, unions, etc. the counter-arguments advanced happen to come rather close to the approach of economic sociology, as understood in this article. Therefore these arguments deserve to be quickly summarized – especially because they illustrate the need to look at the economy in the broader contexts of society and history.

Historically, it is quite significant that the centralization of the Swedish trade union movement was in large measure a result of pressures brought by the Swedish Confederation of Employers (SAF). Only through a strong and centralized trade union movement was it possible to attain the kind of predictability that the business community wanted. The traditional "Swedish model" of centralized wage-negotiations thus implied and reinforced a state of consensus about the rules of the game as well as a mutual confidence between the representatives of labor and capital, which was quite exceptional internationally and which also constituted a comparative advantage for the Swedish industry in international competition.

The breakdown of the "Swedish model" as a result of the so-called economic crisis and "the fiscal crisis of the state" does not occupy us here in spite of the significance of this kind of topic for economic sociology. Rather we ponder how to come to grips with the contradiction between the approach of Calmfors et al. and the historical account just rendered. In Figure 5 this contradiction has been depicted in the form of an unbalanced graph.

As seen in this figure the centralization of trade unions and wage-negotiations produces two contradictory results – on the one hand consensus and on the other intense conflict. If a theoretical interpretation were advanced implying the simultaneity of these two types of effects

Fig. 5. Emerging contradictions in the "Swedish Model".



this would constitute a contradiction difficult to accommodate within one and the same theoretical framework. However, as we have already indicated, there is a historical sequence involved, consensus-effects emerging first, then followed by a period of increasing intensity of conflict. But this does not mean necessarily that theories taking account of the relationship A-B were valid only at an earlier time, while the A-C theory formulated by Calmfors et al. is more adequate right now. We need a more embracing theory taking both these two types of processes into account, not only to understand the historical process and transition involved, but also to guide our analysis of the dialectics of events possibly triggered by future attempts to implement policy recommendations such as those advanced by the Calmfors group of economists.

It is not unreasonable to assume that attempts to weaken union organizations as strong as those in Sweden would first increase the militance of existing union organizations, and then, if these attempts were successful, create a more anarchic situation with an increasing number of smaller and more unpredictable strikes. In other words: Conflicts would not necessarily diminish with decreasing union centralization, as Calmfors et al. would seem to believe, but may simply take on another character. Recent events in England and in Denmark offer food for thought. To stake everything on the attainment of efficiency in a microeconomic sense may bring about far-reaching consequences in a wider social and political context that would undermine industrial efficiency and economic rationality in the long run.

Even if it were true, as some economic theoreticians assume, that an increasing size and centralization of trade union federations is detrimental to the vitality of the economy, it does not therefore follow that the reversal of this assumption is true. In Sweden, with its cultural heritage of cooperation between unions and management, attempts to destroy central union power could backfire and produce disturbances even more serious for the functioning of the economy than the disturbances that have prompted Calmfors et al. to look for "new" market-conforming solutions. A scheme of wage-earners' funds such as those recently legislated in Sweden may resolve the contradiction illustrated in Figure 5 more efficiently, as we have suggested above, while at the same time fitting in much better with Swedish "labor-market culture."

In the alternative solutions proposed by orthodox neoclassical economists, and by proponents of, say, economic democracy, we can distinguish two different ways of handling the concept of structural or systemic rationality. The neoclassical economist points at the irrational incompatibility between the self-equilibrating market and state interventions or trade union policies that supposedly fail to exhibit "market conformity." This is certainly a cogent and justified analysis – as far as it goes. But by neglecting the broader societal context in which the economy is embedded, the neoclassical economist fails to observe that attempts to recreate systemic rationality by removing "incompatible" social structures with a surgeon's knife, may trigger counteracting and perhaps destructive forces in the body politic. A scientifically fruitful definition of systemic rationality cannot neglect to include a concern for existing and vital social structures inherited from the struggles of the past. Here we also see the contrast between the ahistorical approach of neoclassical theory and the sociohistorical time concept we are proposing.

To us as economic sociologists it is obvious that a theoretical analysis adequate to the present impass in the relations among capital, labor, and state must take into account not only the two types of processes indicated in Figure 5 but also the historically specific background of the country in which these processes are studied, and where policy recommendations are made.

The "new managerial philosophies" do not imply any profound system change. However, in the Swedish setting orthodox proposals for a privatization of the public sector and a decentralization of union power would involve a real system change. It has been maintained that the introduction of wage-earners' funds would imply such a system change as well. If that it so, then questions on the legitimacy of system change emerges in both cases.

The legitimacy of a political and economic order derives not only from its efficiency in a more restricted sense but also from its equity and fairness, an equity that must measure up to the standards set by historical precedence. Any theoretical formulation of significant and profound changes in capital-labor relations that does not include a discussion of the processes and problems of legitimacy, efficiency, and equity is inadequate for the analytical tasks involved. Here economic sociology is facing great challenges that necessitate an exploration of areas far beyond the domains of neoclassical economic theory, even if occasionally stimulated by its logic.

Concluding remarks: Toward a new economic sociology

Economic sociology, as noted above, has gone through various stages in its development. During the formative years of sociology there emerged what was to become a "classical economic sociology" with Marx, Weber, and Veblen as three of the main theorists. The emphasis was on producing sociological alternatives to mainstream economic theory. Marx and Veblen wanted to replace the orthodox economic theories of their days with an economic theory that was more sociologically oriented ("historical materialism" and "evolutionary economics"), whereas Weber felt that his *Wirtschaftssoziologie* and neoclassical economics could very well coexist within the framework of a broad *Sozialökonomik* even if the topics that were analyzed would overlap.

Little happened during the 1930s in economic sociology and the next major attempt by sociologists to grapple with economic topics had to wait until the 1950s. The structural-functionalist school in economic sociology differed from classical economic sociology in that it wanted to *complement* mainstream economic theory rather than produce *alternatives* to it. The emphasis during these years was on analyzing the sociological dimension of economic phenomena and the links among the economy and the other "subsystems" of society.

Since the mid-70s a series of works have appeared, which signal a new attitude among sociologists to the study of the economy. Sociologists today are thus more willing to trespass on the economists' domain and ask questions that formerly only the economists did. This is a very exciting development that bodes well for economic sociology. Which exact direction this "new economic sociology" will be taking in the near future, is hard to say. Some lessons can however be learned from the more interesting works that have appeared during the last few years. *First, sociologists must become more familiar with the literature in economics. Second, sociologists should try to address boldly key problems in economic life – the structure of markets, price formation, productivity, etc. – and not only aim at "complementing" the economists' analyses. And third, economic sociology should try to stick to that non-ideological and creative mixture of theoretical and empirical research that has been called "middle-range sociology."* An economic sociology conceived along these lines, we think, would stand the best chance to pick up where the classical economic sociologists left off and to improve the social scientific understanding of the economy.

Acknowledgment

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Notes

1. N. J. Smelser, *The Sociology of Economic Life*, (Englewood Cliffs, N.J.: Prentice-Hall, 1963) 22.
2. See e.g. A. Lindbeck, "The Changing Role of the National State," *Kyklos* 28 (1975): 23–46, and J. I. Gershuny, "The Informal Economy: Its Role in Post-Industrial Society," *Futures* 11 (February 1979): 3–15.
3. See e.g. G. J. Stigler, "Economics – The Imperial Science?" *Scandinavian Journal of Economics* 86 (1984): 301–313.
4. "Economic sociology" is the term used by sociologists such as Max Weber, Emile Durkheim, and Karl Mannheim as well as by Joseph Schumpeter. See e.g. Weber, *Wirtschaft und Gesellschaft: Grundriss der verstehenden Soziologie*, (Tubingen: J. C. B. Mohr, 1976) 34, 41; Durkheim, "Review of Georg Simmel, *Philosophie des Geldes*," *L'Année Sociologique* (1900/1901): 141; Schumpeter, "Gustav v. Schmoller und die Probleme von heute," *Schmollers Jahrbuch* 50 (1926): 34–35, and *History of Economic Thought*, (London: Allen & Unwin, 1954) 20–21, 537; K. Mannheim, "Über das Wesen und die Bedeutung des wirtschaftlichen Erfolgsstreben. Ein Beitrag zur Wirtschaftssoziologie," *Archiv für Sozialwissenschaft und Sozialpolitik* 63 (1930): 449–512. "Economic sociology" is the term often used in Europe, according to R. Swedberg, "Economic sociology," *Current Sociology* (forthcoming in 1987). In the United States the term "economy and society" seems to be the accepted one and "economic sociology" is more sparingly used. For an exception, see A. Stinchcombe, *Economic Sociology*, (New York: Academic Press, 1983). About one out of four graduate departments of sociology, thus offer courses in "economy and society," and this is also the term preferred by the ASA; see on this point ASA, *Guide to Graduate Departments of Sociology* (Washington, D.C.: ASA, 1984). The term "socio-economics" has recently begun to be used; see e.g. A. Etzioni, "Toward Socio-Economics," *Contemporary Sociology* 14 (1985): 178–179; T. Baumgartner, T. Burns and P. DeVille, *The Shaping of Socio-Economic Systems*, (New York: Gordon and Breach, 1985). Our own preference for the term "economic sociology" comes from the fact that it clearly indicates that economic phenomena are here analyzed from the viewpoint of *sociology*.
5. Weber, *Economy and Society: An Outline of Interpretive Sociology* (Berkeley: University of California Press, 1978 (1922)) 63–211.
6. T. Parsons, "Weber's 'Economic Sociology,'" in "Introduction" to Max Weber, *The Theory of Social and Economic Organizations* (New York: Oxford University Press, 1947), 31–35; Parsons, "The Rise and Fall of Economic Man," *Journal of General Education* 4 (1949): 47–53; Parsons and Smelser, *Economy and Society: A Study in the Integration of Economics and Social Theory* (London: Routledge and Kegan

Paul, 1956); Parsons, "On Building Social System Theory: A Personal History," *Daedalus* Fall (1970): 826–881; Smelser, *The Sociology of Economic Life*; Smelser (editor), *Readings on Economic Sociology*, (Englewood Cliffs, N.J.: Prentice-Hall, 1965); Smelser, "On Collaborating with Talcott Parsons: Some Intellectual and Personal Notes," *Sociological Inquiry* 51 (1981): 143–154; W. E. Moore, *Economy and Society*, (New York: Doubleday & Company, Inc., 1955).

7. R. Swedberg, "The Critique of the 'Economy and Society' Perspective during the Paradigm Crisis: From the United States to Sweden," *Acta Sociologica* 29 (1986): 91–112.
8. See e.g. F. L. Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (Berkeley: California University Press, 1977); H. Makler, A. Martinelli, and N. Smelser (editors), *The New International Economy*, (Beverly Hills: Sage Publications, 1982).
9. See e.g. R. Moss Kanter, *Men and Women of the Corporation*, (New York: Basic Books, 1977); L. A. Tilly and J. W. Scott, *Women, Work & Family*, (New York: Holt, Rinehart and Winston, 1978).
10. See e.g. I. Berg, (editor), *Sociological Perspectives on Labor Markets*, (New York: Academic Press, 1981); Patricia A. Adler and Peter Adler (editors), *The Social Dynamics of Financial Markets* (Greenwich: JAI Press, 1984).
11. See e.g. G. Hernes, *Forhandlingsøkonomi og blandingsadministrasjon* (Bergen: Universitetsforlaget, 1978).
12. R. S. Burt, *Toward A Structural Theory of Action*, (New York: Academic Press, 1982); H. C. White, "Where Do Markets Come From?" *American Journal of Sociology* 87 (1983): 517–547; M. Granovetter, "Economic Action and Social Strucutre: The Problem of Embeddedness," *American Journal of Sociology* 91 (1985): 481–510.
13. Economic sociology has, as mentioned earlier, tended to shy away from the topics analyzed by economists. According to Granovetter, "Economic Action and Social Structure," 504, "...with few exceptions, sociologists have refrained from serious study of any subject already claimed by neoclassical economics."
14. T. Kuhn, *The Structure of Scientific Revolutions*, (2nd ed., Chicago: University of Chicago Press, 1970) 119.
15. An interesting comparison between "the classical paradigm" and "the neoclassical paradigm" can be found in M. De Vroey, "The Transition from Classical to Neoclassical Economics: A Scientific Revolution," *Journal of Economic Issues* 9 (1975) 430.
16. See M. Blaug, *Economic Theory in Retrospect* (3rd ed., Cambridge: University Press, 1983) 4.
17. R. Startz, "Prelude to Macroeconomics," *American Economic Review* 74 (1984): 881–892.
18. P. Samuelson, *Economics* (8th ed., New York: McGraw-Hill, 1970) 5–6.
19. See e.g. D. Bell, "Models and Reality in Economic Discourse," in D. Bell and I. Kristol (editors), *The Crisis in Economic Theory*, (New York: Basic Books, 1981) 46–80.
20. Hernes, "Mot en institusjonell okonomi," in Hernes, *Forhandlingsøkonomi*, 201–202 (our translation).
21. R. Merton, "Sociology of Knowledge," in *Social Theory and Social Structure* (Enlarged ed., New York: The Free Press, 1968) 510–542.
22. T. Veblen, "Why is Economics not an Evolutionary Science?" in M. Lerner (editor), *The Portable Veblen*, (New York: The Viking Press, 1948 (1898)) 215–240; Parsons and Smelser, *Economy and Society*; Polanyi, *The Great Transformation* (Boston: Beacon Press, 1957 (1944)); Hernes, "Mot en institusjonell okonomi"; Smelser,

"Reexamining the Parameters of Economic Activity," in E. M. Epstein and D. Votaw (editors), *Rationality, Legitimacy, and Responsibility*, (Santa Monica: Goodyear Publishing Co., 1978) 48; Granovetter, "Economic Action and Social Structure."

23. Smelser, "Reexamining the Parameters of Economic Activity," 48.
24. See, however, later in this essay for some attempts within the neoclassical tradition to overcome these and similar weaknesses.
25. L. E. Preston, "Corporation and Society: The Search for a Paradigm," *Journal of Economic Literature* 13 (1975): 434.
26. See e.g. E. J. Mishan, "The Postwar Literature on Externalities: An Interpretative Essay," *Journal of Economic Literature* 9 (March 1971): 1–28; K. Arrow, *The Limits of Organization*, (New York: Norton, 1974); G. Akerlof, "A Theory of Social Custom, of Which Unemployment May Be One Consequence," *Quarterly Journal of Economics* 95 (1980): 746–775.
27. Polanyi, "The Economy as an Instituted Process," in Polanyi, C. M. Arensberg, and *H. W. Pearson (editors), Trade and Markets in the Early Empires: Economies in History and Theory*, (Chicago: Henry Regnery Company, 1971 (1957)) 249.
28. R. Freedman, (editor), *Marx on Economics*, (Harmondsworth: Penguin Books, 1962) 4.
29. Lindbeck, "Endogenous Politicians and the Theory of Economic Policy," *Institute of International Economic Studies at the University of Stockholm* 35 (1978).
30. See e.g. Weber, *Economy and Society*, 74–75.
31. See e.g. Hernes, *Forhandlingsokonomi*; J. Goldthorpe, *Order and Conflict in Contemporary Capitalism* (New York: Oxford University Press, 1984).
32. See e.g. D. Greenwood, "The Economic Significance of 'Women's Place' in Society: A New-Institutionalist View," *Journal of Economic Issues* 18 (1984): 663–680.
33. Weber, *Economy and Society*, 4.
34. Granovetter, "Economic Action and Social Structure."
35. F. Barth, "Introduktion till 'Entreprenörens roll i social förändring i norra Norge (1963)," in *Socialantropologiska problem*, (Vänersborg: Prisma/Verdandi, 1971).
36. Blaug, *Economic Theory*, 701.
37. J. N. Keynes, *The Scope and Method of Political Economy*, (4th ed., New York: Kelley & Millman, 1955 (1891)) 247–248.
38. See e.g. G. Grossman, *Economic Systems*, (Englewood Cliffs, N.J.: Prentice-Hall, 1974).
39. O. E. Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: The Free Press, 1975).
40. See especially K. Polanyi, "Appendix," in G. Dalton (editor), *Primitive, Archaic, and Modern Economies: Essays of Karl Polanyi*, (New York: Anchor Books, 1968) 13.
41. Schumpeter, *Capitalism, Socialism and Democracy*, (New York: Harper & Row, 1975 (1942)) 45.
42. N. Luhmann, "The Economy as a Social System," in *The Differentiation of Society*, (New York: Columbia University Press, 1982) 190.
43. For some literature on *Economy and Society*, see e.g. S. Kuznets, "Review of Parsons-Smelser, *Economy and Society*," *Annals of the American Academy of Political and Social Science* 312 (1957) 175–176; H. W. Pearson, "Parsons and Smelser on the Economy," in Polanyi, C. M. Arensberg, and H. W. Pearson (editors), *Trade and Market*, 307–319; S. P. Savage, *The Theories of Talcott Parsons* (London: Macmillan, 1981).
44. Luhmann, "The Economy."

45. Granovetter, "Economic Action and Social Structure," 483–487.
46. Smelser, "Reexamining the Parameters," 37.
47. B. C. Caldwell, *Beyond Positivism: Economic Methodology in the Twentieth Century*, (London: Allen & Unwin, 1982) 146.
48. A. Sen, "Rational Fools: A Critique of the Behavioural Foundations of Economic Theory," in F. Hahn and M. Hollis (editors), *Philosophy and Economic Theory*, (Oxford: Oxford University Press, 1979) 87–109.
49. A. O. Hirschman, "Against Parsimony: Three Ways of Complicating Some Categories of Economic Discourse," *American Economic Review* 74 (May 1984): 89.
50. H. A. Simon, *Models of Man: Social and Rational* (New York: John Wiley & Sons, 1957); Simon, *Administrative Behaviour: A Study of Decision-Making Processes in Administrative Organization*, (New York: The Free Press, 1965); H. Leibenstein, *General X-Efficiency Theory & Economic Development*, (New York: Oxford University Press, 1978).
51. Samuelson, *Foundations of Economic Analysis*, (Cambridge: Macmillan, 1947) 90.
52. K. Marx, *Grundrisse: Foundations of the Critique of Political Economy*, (New York: Vintage Books, 1973 (1953)) 100–108; O. Lange, *Political Economy. Volume I. General Problems*, (Oxford: Pergamon Press, 1963) 148–225.
53. L. Robbins, *The Nature and Significance of Economic Science*, (3rd ed., London: Macmillan, 1984 (1932)).
54. J. Habermas, *The Theory of Communicative Action*, Volume 1, *Reason and The Rationalization of Society*, (Boston: Beacon Press, 1984) 167.
55. Granovetter, "Economic Action and Social Structure," 506.
56. O. Lange, "The Scope and Method of Economics," *Review of Economic Studies* 13 (1945): 30.
57. Weber, *Economy and Society*, 6.
58. Ibid., 6.
59. Ibid., 85–86.
60. Smelser, "Reexamining."
61. Hernes, "Mot en institusjonell okonomi," 213.
62. See e.g. J. Elster, *Ulysses and the Sirens: Studies in Rationality and Irrationality*, (Cambridge: Cambridge University Press, 1979); Elster, "Marxism, Functionalism, and Game Theory," *Theory & Society* 11 (1982): 453–482.
63. Elster, "Some Unresolved Problems in the Theory of Rational Behavior," in L. Lévy-Garboua (editor), *Sociological Economics*, (London: Sage Publications, 1979) 68.
64. G. Myrdal, *The Political Element in the Development of Economic Theory*, (London: Routledge and Kegan Paul, 1961 (1930)) 63.
65. Bell, "Models and Reality," 57–58.
66. K. W. Rothschild, "Introduction," in *Power in Economics: Selected Readings* (Harmondsworth: Penguin Books, 1971) 10–11.
67. Weber, *Economy and Society*, 64–65.
68. Ibid., 97, 99.
69. Ibid., 67.
70. Veblen, "Why is Economics not an Evolutionary Science?" 224.
71. J. K. Galbraith, "Power and the Useful Economist," *American Economic Review* 63 (March 1973): 2.
72. Pearson, "Parsons and Smelser," 316.
73. C. E. Lindblom, *Politics and Markets: The World's Political-Economic Systems*, (New York: Basic Books, 1977); Hernes, *Forhandlingsokonomi.*
74. Samuelson, *Economics*, 6.

75. E.g. Keynes, *Scope and Method*, 13.
76. Blaug, *The Methodology of Economics – Or How Economists Explain*, (Cambridge: Cambridge University Press, 1980) 141.
77. See in this context e.g. G. Brulin, "Gunnar Myrdal i ett ekonomisk-sociologiskt perspektiv," (unpublished paper, Uppsala University, 1984).
78. Schumpeter, *History of Economic Thought*, 44.
79. See W. Samuels, "Ideology in Economics," in S. Weintraub (editor), *Modern Economic Thought*, (Oxford: Blackwell, 1977) 467–484.
80. Ibid., 469.
81. See e.g. J. Larrain, *The Concept of Ideology*, (Georgia: Georgia University Press, 1980).
82. Some efforts in this direction already exist, such as A. W. Coats, "The Sociology of Knowledge and the History of Economics," in vol. 2 of W. Samuels (editor), *Research in the History of Economic Thought and Methodology*, (Greenwich, Conn.: JAI Press, 1985) 211–234, and F. Block, "Postindustrial Development and the Obsolescence of Economic Categories," *Politics and Society* 14, 1 (1985): 71–104. See in this context also Axel Leijonhufvud's wonderful satire "Life among the Econ," *Western Economic Journal* 11 (1973): 327–337.
83. Blaug, *Economic Theory*, 391.
84. Ibid., 391.
85. Ibid., 700.
86. Schumpeter, *History*, 44.
87. Luhmann, "The Economy," 194.
88. S. Lysgaard, *Arbeiderkollektivet*, (Oslo: Universitetsforlaget, 1961) 191–193.
89. Simmel was probably the first sociologist to realize the centrality of trust in economic life. See e.g. G. Simmel, *Philosophy of Money*, (London: Routledge & Kegan Paul, 1978 (1907)) 178–179. For contemporary general discussions of trust, see especially N. Luhmann, *Trust and Power*, (New York: John Wiley, 1979); B. Barber, *The Logic and Limit of Trust*, (New Brunswick: Rutgers University Press, 1983); J. D. Lewis and A. Weigert, "Trust as a Social Reality," *Social Forces* 63 (1985) 967–985. Two case studies of the role of trust in financial institutions are S. P. Shapiro, *Wayward Capitalists: Target of the Securities and Exchange Commission*, (New Haven: Yale University Press, 1984) and R. Swedberg, "Bankernas Roll i Skuldkrisen, 1974–1982. En Ekonomisk-sociologisk Förklaringsmodell," *Sociologisk Forskning* 23 (1) (1986): 65–82.
90. Many of the arguments in this section are based on discussions with Peter Hedström (Harvard University and the Institute for Social Research in Stockholm).
91. The *Methodenstreit* has been much discussed in sociology. Less known is the interesting British debate triggered off by Comte's critique of political economy and in which John Stuart Mill, Alfred Marshall, John Neville Keynes, and others took part. See Swedberg, "Economic Sociology."
92. As the reader by now is aware, we have chosen in this essay not to equate "economic sociology" with "institutionalism." One reason for this is that "neo-institutionalism" differs on too many points from economic sociology. The former paradigm has been described in the following way by A. G. Gruchy, "Institutional Economics: Its Influence and Prospects," *American Journal of Economics and Sociology* 37 (1978): 276–277: "The present-day mainstream institutionalists have a scientific research paradigm that revolves around the concept of the evolving economic process which is a subprocess of the larger social or cultural process. This process is at bottom a disequilibrium process that is influenced by a wide variety of

non-economic and economic factors. The dynamics of technological change at work within this process brings about an evolution of the economic system through a process of circular and cumulative causation that alters the system's structure and functioning. Inherent in the economic process is a logic or pattern of industrialization that gives shape or form to the course of industrial evolution with the result that mature economies like those of the United States, the United Kingdom, France, and West Germany have the common pattern of a triplistic industrial system. This system has a large-scale private oligopolistic sector, a small-scale private competitive sector, and a large public sector. The analytical norm used by the mainstream institutionalists in their interpretation of the functioning of the mature triplistic industrial economy is the large-scale corporate enterprise in the economy's industrial heartland and not the small-scale competitive norm of conventional economics.... It is the view of the mainstream institutionalists that the malfunctioning of the triplistic industrial economy will eventually lead to a postindustrial system in which democratic national planning will be substituted for the uncoordinated interventionism of regulated capitalism."

93. See e.g. Weber, "'Objectivity' in Social Science and Social Policy," in *The Methodology of Social Sciences*, (New York: The Free Press, 1949 (1904)) 49–112; Weber, *Economy and Society; Weber, Rosher and Knies: The Logical Problems of Historical Economics*, (New York: The Free Press, 1975 (1922)).
94. Marx, *Grundrisse*, 100–108.
95. See e.g. T. Burger, "Talcott Parsons, the Problem of Order in Society, and the Program of an Analytical Sociology," *American Journal of Sociology* 83 (1977): 320–334; Parsons, "Comment on Burger's Critique," *American Journal of Sociology* 83 (1977): 335–339.
96. Parsons and Smelser, *Economy and Society*, 306.
97. Blaug, *Economic Theory*, 697.
98. See e.g. Caldwell, *Beyond Positivism*, 199.
99. See e.g. Sen, "Description as Choice," *Oxford Economic Papers* 32 (1980): 353–369.
100. See e.g. T. Burns, "Sociological Explanation," in D. Emmet and A. MacIntyre (editors), *Sociological Theory and Philosophical Analyses*, (London: Macmillan, 1970) 55–75.
101. Merton, "The Bearings of Sociological Theory on Empirical Research," in *Social Theory and Social Structure*, (Enlarged ed., New York: The Free Press, 1968) 139–171.
102. Ibid., 147.
103. Ibid., 152.
104. O. Morgenstern, "Descriptive, Predictive and Normative Theory," *Kyklos* 25 (1972): 705.
105. There are quite a few books in this genre. Among the most popular are: W. Ouchi, *Theory Z: How American Business Can Meet the Japanese Challenge*, (Readings, M.A.: Addison-Wesley, 1981); T. J. Peters and R. H. Waterman, Jr., *In Search of Excellence: Lessons from America's Best Run Companies*, (New York: Harper & Row, 1982); T. E. Deal and A. A. Kennedy, *Corporate Cultures*, (Readings, M.A.: Addison-Wesley, 1982).
106. A project on the "new managerial philosophies," in which one of the authors is participating, is being carried out at The Swedish Center for Working Life in Stockholm. The name of the project is LAKE (Management, Organization, Quality, and Efficiency).
107. Blaug, *Methodology*, 175.

108. R. H. Coase, "The Nature of the Firm," *Economica* 4 (November 1937): 387–405; A. A. Alchian and H. Demsetz, "Production, Information Costs and Economic Organization," *American Economic Review* 52 (December 1972): 777–795; Williamson, *Markets*; Williamson, "The Economics of Organization: The Transaction Cost Approach," *American Journal of Sociology* 3 (1981): 548–577.
109. Coase, "Nature," 336.
110. We will here sidestep the very important issue whether Williamson's functionalism is defensible. For a critique along these lines, see e.g. Granovetter, "Economic Action and Social Structure."
111. Williamson, "The Economics of Organization," 553.
112. A. A. Alchian and H. Demsetz, "Production, Information Costs and Economic Organization," *American Economic Review* 52 (December 1972): 777.
113. Granovetter, "Economic Action and Social Strucutre"; S. Bowles, "The Production Process in a Competitive Economy: Walrasian, Neo-Hobbesian, and Marxian Models," *American Economic Review* 75 (1985): 16–27.
114. Bowles, "The Production Process": 19.
115. K. Lancaster, "The Dynamic Inefficiency of Capitalism," *Journal of Political Economy* 81 (1973): 1091–1109.
116. For a presentation of the original proposal on wage-earners' funds, see R. Meidner, *Employee Investment Funds: An Approach to Collective Capital Formation*, (London: Allen and Unwin, 1978). A later version, closer to the kind of funds that eventually were legislated, was presented in SAP-LO, *Arbetarrörelsen och löntagarfonderna*, (Stockholm: Tidens förlag, 1981). For an analysis and evolution of the debate on wage-earners' funds, see Himmelstrand et al., *Beyond Welfare Capitalism: Issues, Actors and Forces in Societal Change*, (London: Heinemann, 1981).
117. See for instance the discussion in B. Horvat, *Political Economy of Socialism*, (New York: Sharpe, 1982); J. Vanek, *The Participatory Economy: An Evolutionary Hypothesis and a Strategy for Development*, (Ithaca: Cornell University Press, 1971). For a continuous, highly professional discussion of problems connected with the economics of workers' self-management, see the journal *Economic Analysis and Workers Management*, published quarterly by Prosveta Publishing House in Belgrade, Yugoslavia.
118. Himmelstrand et al., *Welfare Capitalism*, 113 ff.
119. C. Offe and H. Wiesenthal, "Two Logics of Collective Action: Theoretical Notes on Social Class and Organizational Form," in M. Zeitlin (editor), *Political Power and Social Theory*, (Conn.: JAI Press, 1980) Vol. 1, 67–115.
120. L. Calmfors et al., *Lönebildning och Samhällsekonomisk Stabilisering*, (Stockholm, Svenska Sparbanksföreningen, 1985).