

# TOWARDS AN ECONOMIC SOCIOLOGY OF CAPITALISM

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RÉSUMÉ. — Si la supériorité du capitalisme en tant que système économique produisant de la croissance a fasciné les économistes depuis des siècles, tel n'est pas le cas des sociologues qui se sont principalement intéressés à ses conséquences sociales. Cet article propose un programme pour une *sociologie économique du capitalisme* à partir d'une étude sociologique des institutions économiques qui sont à la base du capitalisme. La dimension "économique" vient de l'attention accordée à la dimension économique du capitalisme, tandis que la dimension "sociologique" vient de la manière d'étudier cette dimension économique. Le point de départ analytique consiste dans la proposition selon laquelle les *intérêts* déterminent les actions des individus et que ces intérêts prennent une forme sociale particulière, forme que nous appelons "capitalisme". Cet article est un premier examen des conséquences qu'aurait le fait de placer un tel objet au centre de la sociologie économique et notamment dans le fait de fournir des études sur la *production*, la *répartition*, la *consommation* et la *recherche du profit*. En outre, l'article prend en compte l'impact du droit, de la politique et de la culture sur le fonctionnement économique pour examiner leur impact, *favorable* ou *défavorable*, sur la croissance économique.

ABSTRACT. — While the superiority of capitalism as an economic system and growth machine has fascinated economists for centuries, this has not been the case with sociologists, who have mainly been concerned with its social consequences. In this article an effort is made to present an agenda for a sociological study of the economic institutions that make up capitalism that can be called *an economic sociology of capitalism*. The "economic" in this approach comes from the emphasis on the economic dimension of capitalism; and the "sociology" from the way this economic dimension should be studied. The analytical point of departure for an economic sociology of capitalism consists of the proposition that *interests* drive the actions of the individuals, and that interests come together in a very specific—and social—way that we call "capitalism". This study is devoted to an attempt to spell out what it would mean for economic sociology to set this model of capitalism at its center. It is clear, for one thing, that this would have important consequences for what will then be seen as the central task of economic sociology—namely, to produce studies of *production*, *distribution*, *consumption* and *profit-making*. Added to this are the following three topics: the impact on the economic process by *law*, *politics* and *culture*. For all of these latter topics it is imperative to investigate how they can *speed up*, *slow down* or *block* economic growth.

Capitalism is the dominant economic system in today's world, and it is likely to remain so for quite some time.<sup>1</sup> Socialism, its main competitor, has been weakened immeasurably by the collapse of the Soviet Union. Where socialism still prevails, such as in the People's Republic of China, serious attempts are made to turn the whole economic system in a capitalist direction so that it will operate in a more efficient manner. "It doesn't matter if the cat is white or black as long as it catches mice", to cite a famous line by Deng Xiaoping (Becker, 2000: 52-53).

While the superiority of capitalism as an economic system and growth machine has fascinated economists for centuries, this has not been the case with sociologists. For sociologists capitalism has mainly been of interest for its *social* effects—how it has led to class struggle, anomie, inequality and social problems in general. Capitalism as an economic system in its own right has been of much less interest. Some of this reaction has probably to do with the unfortunate division of labor that developed between economists and sociologists in the 19<sup>th</sup> century: economists studied the economy, and the sociologists society minus the economy. In this respect, as in so many others, sociology has essentially been a "left-over science" (Wirth, 1948).

In this article an effort will be made to present an agenda for a sociological study of capitalism. There are two reasons why this type of study may be called *an economic sociology of capitalism*. First, the main emphasis is not on the social effects of capitalism, but on capitalism as an economic system in its own right—on the firms, the banks, the markets and the other economic institutions that make up the core of the economy. On this point we follow Marx in *Capital* as well as Parsons and Smelser's suggestion that the economy be conceptualized as a distinct sub-system of its own (Marx, 1990 [1867], Parsons and Smelser, 1956). This is where the "economic" in "economic sociology" comes in. Second, while we already have several economic theories of capitalism, we do not have one which sufficiently takes the social dimension of the capitalist machinery into account—and this is where the "sociology" in economic sociology comes in.

A study of capitalism as an economic system should consist of two parts. First of all, studies of individual, middle-range pheno-

1. I am grateful for comments on this article especially by Mabel Berezin, Victor Nee and Philippe Steiner.

mena need to be made. Indeed, this constitutes by far the most important task of an economic sociology of capitalism and cannot be replaced by macro level studies of capitalism. But while studies of capitalism itself should not predominate, they have their own distinct *raison d'être*. One of these is that this type of studies outlines the basic connections between the different parts of the economy—how the whole economic process hangs together. They also show, related to this, how the study of the various parts of the economy should be interrelated—something which has hitherto been missing in economic sociology, but which is very important for its attempt to develop a more systematic approach. In studying each individual part of the capitalist system it is also important to be clear about what drives the system as a whole. Finally, as already Adam Smith was well aware of, there exists an overall logic of capitalism as an economic system, which the individual actors are not aware of; through the logic of unintended consequences it not only produces individual wealth but also social wealth.

### A basic model of capitalism

The reference to Adam Smith leads in a natural way to the next step of this introduction, namely to the analytical point of departure for an economic sociology of capitalism. This consists of the proposition that *interests* drive the actions of the individuals, and that interests come together in a very specific way in what we call "capitalism". The actors in society are driven by a variety of interests—political, economic, legal and so on. It is important to insist on the plurality of interests since this makes the analysis realistic as well as flexible. Interests of the same type, as well as of different types, may reinforce each other, counterbalance each other, block each other, and so on. Interests, very importantly, are what supplies *the force* in the economic system—what makes millions of people get up in the morning and work all day. Interests also explain why banks, financial markets and similar institutions are so powerful: they can mobilize and energize masses of people into action through their control over economic resources.

At this point it should be pointed out that sociologists have often tended to ignore interests and focus exclusively on social relations and the impact that these may have. This exclusive emphasis

on social relations can to some extent be explained as the professional myopia of the sociologist. It is matched, in the economic profession, by a similar overemphasis on the purely economic side of things—on economic interests and their effects, *minus* social relations as well as other types of interests. A hard-hitting economic sociology would attempt to draw on the best of sociology and economics, and to *unite* interests and social relations in one and the same analysis.

Our definition of institutions can be used to exemplify this need for drawing on both interests and social relations in the analysis. Institutions are often defined in sociology, as well as in New Institutional Economics, in exclusively social terms—as rules, social constructions and so on. Pretty much anything, from this perspective, can be an institution—from a handshake and a dance to the State and the firm. The individuals with their interests are abstracted away, to make room for a vision of institutions as pure and empty social structures.

In contrast to this approach, institutions will here be understood to mean *durable lock-ins or amalgamations of interests and social relations*. The interests of individuals as well as of corporate actors are taken into account. A business firm, for example, does not exist unless you also take the capital of the firm into account; similarly a family does not exist unless you also take the emotional interests of its members as well as the sexual interest between the parents into account. There is not only a time dimension to institutions—they tend to last for some time—but a normative element as well: they tell you *how* interests should be realized in society, be it family interests, political interests, economic interests or some other type of interest. Institutions are of crucial importance to the functioning of society, and a sign of this is that they are typically regulated in law.

A basic model for capitalism will now be presented which draws on a mixture of sociology and economics. Our general point of departure is the conventional definition of economics as consisting of production, distribution and consumption. To cite a well-known textbook: "Economics is the study of how men and society end up *choosing*, with or without the use of money, to employ *scarce* productive resources which could have alternative uses, to produce various commodities and distribute them for consumption, now or in the future, among various people and groups in society" (Samuelson, 1970: 4).

This definition describes the economy as a process: all economies start with production, continue with distribution, and end with consumption. Now, all economies can be organized in what amounts to two fundamentally different ways. Weber expressed this fact with the help of his two categories of "householding" (*Haushalten*) and "profit-making" (*Erwerben*): you either produce for consumption or for profit (Weber, 1978 [1922]: 86-100). Marx alluded to the same phenomenon when he spoke of "use value" versus "exchange value" (Marx, 1906 [1867]: 42-43). And so did Aristotle, with his well-known distinction between "*oekonomia*" (household management) and "*chrematistica*" (money-making; Aristotle, 1946: 18 ff.; Finley, 1985 [1973]: 17).

The key to the different ways of organizing the economy is to be found in the way that the economic product is *distributed* in the sense of being passed on in the economic process. As the reader will notice I am here departing from the conventional use of the term distribution in economics—as the division of what has been produced—and instead focus on the different social mechanisms through which what has been produced is being passed on.<sup>2</sup>

To show the fruitfulness of this approach, it is convenient to refer to some of the most useful conceptual tool of economic sociology, namely Karl Polanyi's three concepts of *redistribution*, *reciprocity* and *exchange* (Polanyi, 1971 [1957]). Following Polanyi, it is clear that one way of distributing or passing on what has been produced is through *redistribution*. The agent who does the redistribution is typically the State or some other political authority. The modern socialist State is an example of an economic system that is based on redistribution. Other examples can easily be found, say in Antiquity. What has been redistributed is then consumed. Some part of what has been produced is always set aside for future production; and the size of this part is decided by the political authority. An economy which is primarily based on redistribution is capable of growth—but not of the dynamic type of growth that is characteristic of capitalism.

The second way of distributing or passing on what has been produced, according to Polanyi, is through *reciprocity*. This means some equitable form of distribution, as is common in a family or in a kin based economy. Again, some part of what is being produced is

2. I am grateful to Philippe Steiner for having pointed out to me that sociologists and economists use the term distribution in different ways.

always set aside for future production. But, again, the result of this way of distributing what has been produced, is not going to lead to a dynamic economy. An economy which is based on reciprocity tends towards traditionalism and some form of equity.

Only the third way of distributing or passing on what has been produced—through *exchange*—can lead to a truly dynamic economic system, with an ever-growing economy. The reason for this is that this system is not exclusively driven by the eternal human interest in consumption but also by the powerful interest of *profit*. The latter activates people in a very different way from redistribution or reciprocity. And on the assumption that the profit is also reinvested in production, a truly dynamic economic system—that of *capitalism*—will come into being.

What is unique about capitalism, as compared to economic systems based on redistribution and reciprocity, is that it alone operates on the profit motive. The two most important social mechanisms in capitalism are consequently exchange and the feedback of profit into production (see Fig. 1). Complexity is added to the capitalist type of economy by the fact that it also contains several sectors based on reciprocity and redistribution. What can be called *the household economy* is, for example, based on a mixture of redistribution and reciprocity; and so is the sector with non-profit organizations. What can be called *the State economy*, which in modern society accounts for 30–50% of GNP, is on the other hand dominated by redistribution.

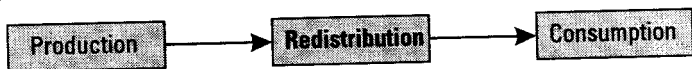
Following this model, modern capitalist economies consist of various sectors. There is, first of all, the leading corporate sector, where exchange dominates. There is also a non-profit sector, which is based, among other things, on redistribution. The State accounts for a huge part of GNP (30–50%), and what can be called the State economy is primarily based on redistribution. The household economy is based on a mixture of redistribution and reciprocity.

The rest of this chapter is devoted to an attempt to spell out what it would mean for economic sociology to set this model of capitalism at its center. It is clear that this would have important consequences for what will then be seen as the central task of economic sociology—namely, to produce studies of *production*, *distribution*, *consumption* and *profit-making* (Sections 1–4). Added to this are the following three topics: the impact on the economic process by *law*, *politics* and *culture* (Sections 5–7). For all of these topics it is also imperative to investigate how they can *speed up*, *slow down* or *block* economic growth. Still, our model remains highly simplistic and

## A. The Universal Economic Process



## B. The Economic Process where "Redistribution" (Polanyi) is Predominant



## C. The Economic Process where "Reciprocity" (Polanyi) is Predominant



## D. The Economic Process where "Exchange" (Polanyi) is Predominant

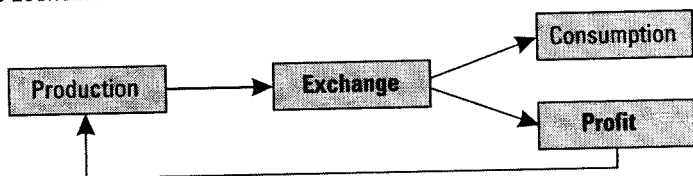


Fig. 1. — Capitalism and other ways of organizing the economic process

*Comment:* The economic process in any society can be defined as consisting of production, distribution and consumption. The distribution or passing on of what has been produced can be organized in fundamentally three ways; and which of these is chosen will have an enormous impact on the productivity of the economy. Following Polanyi, we may call these *redistribution* (e.g. by the State), *reciprocity* (e.g. in a family), and *exchange* (in a market). Exchange characterizes the capitalist organization of the economy; and this type of economy derives its dynamic from the fact that the end goal of the economic process is not exclusively consumption, but also *profit*. The more that this profit is reinvested into production, the more dynamic the economy will be. The two key mechanisms in capitalism, in other words, are *organized exchange* (the market) and the *feedback loop of profit into production*. It is the use of these two, it should be stressed, that makes the organization of economic interests in the form of capitalism into such an effective machinery for transforming economic reality.

ignores, for example, the fact that part of consumption goes back into production in the form of savings. It also has nothing to say about the business cycle.

## 1. The sociology of distribution

While the capitalist system consists of three basic processes which are all interdependent and shaped by the fact that they are parts of a dynamic system—production, distribution and consumption—one of these is especially important: *distribution*, in the form of exchange on the market. This represents the reason why it is preferable to start with distribution rather than with production, which otherwise comes first in the economic process.

Once it has been decided to proceed in this manner, it immediately becomes clear that there exists an important precondition for exchange to take place in the first place, namely private property. From a sociological perspective, Weber explains, property can be conceptualized as a specific form of closed social relationship. More precisely, it represents a relationship that allows the actor to exclude everybody else from the opportunity to use some item or some person. This right is also alienable and can be inherited. Property is typically legally protected, which means that if it is infringed upon, a state will use coercion to restore it (Weber, 1978 [1922]: 22, 44).

This view of property is close to the economists' view of property as a collection of enforceable property rights (Barzel, 1989). The main difference is that the element of social relations is given a much more prominent and visible form in the sociological view of property. That there nonetheless exists a basic compatibility between the economic and sociological view of property can be illustrated by the fact that during the last few years a number of sociological studies have appeared, which draw on the notion of property rights (Campbell and Lindberg, 1990; Oi and Walder, 1999).

What is crucial about private property as opposed to collective property is that the former appeals to the individual, and in doing so, activates her in a manner that collective property is typically unable to do. Some might argue that people should in principle be as motivated by the prospect of acquiring and using collective property as they are by the prospect of acquiring and using private pro-



perty. The reason why this is rarely the case, however, has much to do with the free rider problem (Olson, 1965). It is also very easy for a few individuals to misuse or destroy collective property.

Once private property exists, exchange becomes possible. The driving force in an exchange is always that both parties will be better off by trading with each other than by not doing so. Actor A may value his bike at \$50 and Actor B at \$70; and if an exchange takes place both will be better off—and social wealth will have increased by \$20. For an exchange to take place, it is not necessary that one party becomes better off while no-one is worse off (Pareto optimality). What rather is needed is that both parties become better off by X, without a third party being worse off by more than X, according to the so-called Kaldor-Hicks concept of efficiency. This latter concept of efficiency is often used in economics because its demands are less stringent than those of Pareto optimality. The point here, however, is that it is easier to explain the nature of exchange by using the Kaldor-Hicks concept of efficiency, especially what drives the two parties to engage in an exchange in the first place.

Sociologists and economists have developed different approaches to markets—to the role that these play in the economic process, to what is typically regulated in a market, and so on. To economists, markets are primarily processes for price formation, in which the price helps to allocate scarce resources in an efficient manner. By tradition, economists have neglected the institutional dimension of markets, such as rules for exchange, the enforcement machinery and so on (North, 1977: 710; Coase, 1988: 7).

Sociologists, on the other hand, tend to emphasize the role of social relations and institutions in markets. Today's sociologists will typically analyze the networks which are created by interacting market actors (Baker, 1984; Uzzi, 1997). Weber noted that markets not only consist of repeated acts of exchange, but also of competition among the actors for who will be the one to sell and the one to buy (Weber, 1978 [1922]: 82-85, 635). This idea of "competition for opportunities of exchange" is perfectly compatible with a networks approach, as Ronald Burt has shown in his theory of structural autonomy (Weber, 1978 [1922]: 635; Burt, 1983, 1992).

Given the fact that economists and sociologists each hold half of the truth, so to speak, when it comes to markets, it seems natural that they should try to coordinate their efforts. Economists need to

better understand the role of the social relations in the market, and sociologists need to better understand how prices are formed and what effect these have on the economy. Prices drive many economic changes in capitalism, as Douglass North has made clear—but they do so via a social structure in which interests are embedded, and where quite a bit else is going on as well (North and Thomas, 1973; Hayek, 1945).

An economic sociology of markets should also study what changes in the exchange mechanism make the capitalist wheel spin faster as well as what slows it down and makes it grind to a halt. According to the theory of transaction costs, lower costs for market deals is a sign of a more efficient exchange mechanism. This is true indeed, among other reasons since this means that the profit will be larger and that more can be reinvested in production. Lower transaction costs in this context, however, are typically accomplished through changes in social relations and in social mechanisms—and this is where the sociologist can be of help (Hedström and Swedberg, 1998). Take, for example, the clause of *bona fide* or the fact that if the buyer is in good faith it does not matter if the seller did not properly acquire the goods in question. *Bona fide* naturally lowers the transaction costs, but is also a fact of such social complexity that the sociologist, rather than the economist, may be better equipped to study it. The same is true for many other forms of trust in economic life (Fukuyama, 1995).

But economic sociology is not only interested in what makes the wheels of capitalism accelerate; there is the equally challenging question of what makes them slow down or grind to a halt. Again, Weber's work can be used for illustrations. If bureaucrats in a firm gain power at the expense of the entrepreneur, for example, profit-making will be slowed down since bureaucrats by nature are alien to the idea of profit-making. One important reason for this, Weber says, has to do with the fact that people on a fixed income often find it dishonorable to be swayed by economic considerations (Weber, 1978 [1922]: 1108–1109). Similarly, if individual firms and capitalists are not stopped in their attempts to create monopolies, capitalism may wither away because there will be no competition to keep it alive (Weber, 1978 [1922]: 202–205). Recent scandals in corporate America have also shown how dishonest and false accounting can slow down economic growth and prevent new investments.

All in all, the market represents *the* central institution in capitalism. To this should immediately be added that this is only true on condition that most of the production passes through the market. In the great majority of societies throughout history, markets have indeed played a role, but usually a marginal one. It is only since the late 19<sup>th</sup> century, in countries such as England and the United States, that the great bulk of production—food, clothes and so on—has been produced in the form of commodities which are exchanged in the market. By 1790, for example, 80% of all clothing in the United States was made in the home, while a century later 90% was made outside the home (Boorstin, 1974: 97-99).

When most of production passes through the market, it can be added, the competition for exchange that Weber speaks about as characteristic of the market will also dominate what happens in the economy *outside* of the market. That is, instead of just bringing a few surplus items to the market, as peasants often did in the Middle Ages, the producers in a modern capitalist economy must start the competition long before they enter the market. When one speaks of a market economy, in other words, what is meant is an economy where the market is not only used for exchange; it also dominates production (and consumption, as we soon shall see).

Before leaving the topic of distribution, something also needs to be said about *money* since this is the place in the economic process where money enters into the picture; it is indeed the medium of exchange *par excellence* (Menger, 1892). The historical step from barter to exchange with money extended the number of goods that could be exchanged against each other enormously. Money, more generally, also helps the process exchange to proceed smoothly and lowers the cost of exchange. Many other financial innovations—such as the bill of exchange, the bill of lading, and so on—have similarly helped to lower transaction costs and developed in close touch with markets.

While money, like any other economic phenomena, has a cultural dimension (as I shall return to), it is its place within the overall economic process that is of most interest to economic sociology. In economies based on reciprocity, money often plays a subordinate role since other values than “the cash nexus” decide who should get what. In economies based on redistribution, money is often in use, as recent examples of State socialism are a reminder of. Political interests, however, dominate the operations of money in this type

of societies, and socialist States have usually failed in their attempts to simulate effective market prices.

In capitalism, in contrast, money and markets are protected through the existence of "credible commitments" from the political rulers, that is, by assurances of the rulers that they will not intervene in the normal workings of the market. Money, in brief, is allowed to operate "freely" and can therefore help the market to operate more smoothly and cheaply. Money also plays an important role in the capitalist process in the form of capital, that is, as profit generated through exchange. Money and markets, in brief, belong together.

## 2. The sociology of production

The next major area within the economic sociology of capitalism is that of *production*. No society can live without production, and all production involves social coordination—a sociological element. Nonetheless, an economic sociology of production may want to start from the following well-known economic premise: that production consists of combinations of some or all of the traditional factors of production (land, labor, capital, technology and "organization" [Marshall]). The sociologist may want to add that all of these factors of production have their distinct sociological profiles—before they enter into production as well as once they interact in the firm. In relation to the basic model of capitalism, the factors of production can be conceptualized as inputs into production.

It should also be emphasized that it is not the organizational form itself (or capital or technology) that is the sole determinant of productivity. It represents a common error among organization theorists, for example, to think that organizations are what matters the most—just as Marxists think that labor is the key to all production, engineers (and economic historians) think that technology is the cause of all economic growth, and so on. All of these factors contribute to productivity, individually as well as in combination.

This is also where entrepreneurship in its classical Schumpeterian sense comes in. Entrepreneurship is defined by Schumpeter as a new combination for profit-making, of already existing factors of production (Schumpeter, 1934). An innovation may consist of a new commodity or some novel way of lowering the price—and it

will result in high profit for the entrepreneur, soon to be followed by competition, overinvestment and lower profit. This way, according to Schumpeter, a business cycle is set off and played out in the economy.

## 2.1. Factor of production # 1: Labor

When factors of production were discussed in the 19<sup>th</sup> century, land was usually assigned a prominent place. In today's capitalism, however, land is of considerably less importance, and the average person is not dependent on working the land for his livelihood. Land as a factor of production will therefore be passed over in this article, and I shall proceed directly to labor, which has retained its importance for the process of production.

Labor as a modern factor of production typically passes through two stages. There is the first stage that takes place *before* labor enters into production, and which is followed by the stage when labor is inside the corporation. Two institutions that are central to labor, before it enters into production, are the home and the school. In the home children learn values, discipline and how to interact (what some analysts refer to as social capital, and others as cultural capital). They also get to live in a household economy and become influenced by its values. In school, labor is taught various skills, some of which are of value in production, from reading, writing and elementary mathematics in school to engineering, computer programming and nuclear physics at the university (what some analysts refer to as human capital; for a discussion of the different forms of capital, see Bourdieu, 1986; Coleman, 1990).

According to a well-known strand of sociological theory, when labor is distributed via the market it tends to form into large and loose groups of people with similar economic interests (*classes*). When there is no market, or the market is being controlled, say, by a profession, labor instead tends to form into small and cohesive groups centered around honor and consumption (*status groups*; Weber, 1978 [1922]: 302–307). Whatever the exact relationship is between class and status, on the one hand, and labor, on the other, it is imperative for economic sociology to attempt to theorize the link between the economic process, on the one hand, and the formation of groups in society, on the other. This is where economic sociology needs to connect with stratification theory—and perhaps

also where stratification theory can get some inspiration from economic sociology.

In modern capitalist society labor tends to form into three broad categories: workers, professionals and managers. Sociology is by tradition skillful in tracing the structure of groups as well as the mentalities of their members, while economists often tend to use a non-differentiated concept of labor and emphasize the crucial role played by the productivity of the worker (according to the standard formula of marginal productivity theory; see however also the different approach of personnel economics in Lazear, 1995). Again, it would appear that both sociology and economics can benefit from the insights of the other science.

To what extent can labor, before it enters into the process of production, add to, slow down or block the wheels of capitalism? What happens in the home as well as in the school, in terms of creation of values and skills, is clearly of great relevance for an answer to this question, and it will also affect the formation of status groups and/or classes. Status groups, Weber argues, are inherently anti-capitalist since they set honor and other non-economic values before profit-making. Status groups are antagonistic to the market since the market disregards the values its members hold dear. The more that labor feels the impact of the market, on the other hand, the more individual actors will accept its logic: the need for efficiency, profit-making and constant reinvestment.

## 2.2. Factor of production # 2: Capital

Economists pay by tradition much attention to the role of capital in the process of production; while sociologists, if they study capital at all, tend to analyze its role outside of production, in the form of wealth (Keister, 2000). Again, the two approaches may want to draw on each other's insights in order to get a full picture of what is going on. To this can be added that the groups in society who control the economic resources have different attitudes to wealth—how it should be acquired, what it can be used for, and so on. Aristocrats, for example, have traditionally had contempt for merchants, and so have warriors. There is also the fact that some groups of merchants take larger risks than others; and this will have an important impact on the generation of wealth and capital. Merchants furthermore deal in different types of goods, as exemplified by the historical appearance of *the businessman*—a term that was first

used in the US in the 1830s to denote a new type of merchant, who not only traded in goods but also in land and whatever could result in a profit (Boorstin, 1974: 115). This type of phenomena can be explored with the help of sociology.

Control over capital is often delegated by the owner to some other actor, and this creates a well-known problem for the owner (corporate control). A flexible type of analysis that economists use to handle this type of situation is agency theory, which is based on the idea that the owner (the principal) has a different interest than the one to whom she assigns some specific task (the agent). This means that something has to be done about this divergence of interest. One solution is direct observation of the agent (monitoring), another to give the agent an incentive to act in the interest of the owner (alignment of interests). The former is less easy to carry out when it comes to managers, as opposed to workers; there is also the further problem of "who will monitor the monitor" (Alchian and Demsetz, 1972).

Agency theory can enrich economic sociology by adding to its analyses of capital, especially when it comes to the question of how the owner can maintain control over his capital, once a manager is in place. According to Harrison White, for example, the advantage with using agency theory is that "it is intensely social in its mechanisms, since it gets one person to do something for another vis-à-vis a third person but only with heavy reliance on the lay of the social landscape" (White, 1985: 187; White, 1992: 245-254). James Coleman has a similarly positive view of the sociological potential of agency theory, as is evidenced by the following quote from *Foundations of Social Theory*: "Once a transaction has been made, in which the principal satisfies interests of the agent (for example, through a monetary payment) in return for the agent's using his actions to pursue the principal's interests, a social system has been created" (Coleman, 1990: 152).

A corporation can acquire capital in a variety of ways—from banks, venture capitalists, the capital market, and so on. Each of these institutions have their own distinct social structure and history which sociology can help to analyze. Pension funds and mutual funds which have become key players in the modern capital market, are often managed by single individuals; and very little is currently known about these. Agency theory, in combination with economic sociology, represents one way of approaching this type of issues.

The way that capital is brought to production will obviously affect the generation of economic value. Risk taking, as already mentioned, is a crucial factor at this point of the process, and closely related to the profit level. But risk taking is also directly affected by social relations, as the historical emergence of venture capital in the United States a few decades ago illustrates. What characterizes venture capitalists is an intimate knowledge of the business in which they invest, often in combination with some form of control over the firm that is being targeted. Together, these two measures make risk taking more manageable—and thereby also increase the chance to make a high profit. Again, this is a topic where economic sociology can be of assistance.

### *2.3. Factor of production # 3: Technology*

Technology is of crucial importance to the capitalist process, primarily because it helps to increase productivity (Rosenberg and Birdzell, 1986; Mokyr, 1990). Exactly how this is done, however, is something that neither economists nor sociologists understand very well. Economists realize the great importance of technology in this respect, but have difficulty in theorizing it (Solow, 2002). A sign of this is the discussion about the role of computers in the economic growth in the United States in the 1990s. "You can see the computer age everywhere but in the productivity statistics", to quote a famous statement by Robert Solow (1987).

Another difficulty with the economists' view of technology is that they see technology as the one and only reason for growth in productivity. While innovations in technology may well be *the* major reason for growth in productivity in modern capitalism, it is by no means the only one. Social organization, in particular, also affects productivity, a fact that industrial sociology made clear a long time ago (Roy, 1952; Roethlisberger and Dickson, 1939).

Sociologists differ from economists in that they rarely note that technology is of great importance to productivity as well as for the generation of profits. Sociologists of science of the old school view science primarily as a public good, which may once have been true but is less so today. Modern sociologists of science, on the other hand, argue that science and technology essentially are to be understood as forms of social construction, which may well be



true—but is of little relevance to an understanding of the role of science and technology in the economic process.

From historians of technology we know that economically relevant technology for a long time emerged in a slow, evolutionary manner—as evidenced by the history of boat, the ax, the plow, and so on. At the time of the Industrial Revolution, and even more so during the second half of the 19<sup>th</sup> century, however, a historical meeting took place between capitalism and science. This alliance has continued till today and has become ever more important to the dynamic growth of capitalism.

It has often been pointed out that social organization can accelerate or impede the emergence of new technology, which in its turn will affect the economy. In his study of religions in India, for example, Weber notes that the caste system blocked innovations by forbidding changes in the tools of the artisans (Weber, 1958 [1921]: 103; Schroeder and Swedberg, 2002). Since the penalty for a change of this type was religious, Weber's example also illustrates how a religious interest (successful reincarnation) can be used to block an economic interest (to make more money). In today's society, to use a more contemporary example, we are witnessing an important change in the property rights to science, which has helped to speed up production. While science until recently was seen as a common good, ways are now increasingly found to turn it into a private good (Mirowski and Miriam-Sent, 2002). The forces that have caused this change are obvious enough. A new pharmaceutical drug can, for example, be worth billions of dollars in profit. It also costs somewhere around 800 million dollars to develop a new drug.

#### 2.4. Factor of production # 4: Organization (Marshall)

Alfred Marshall sensed the limits of the economics of his days and argued, in *Principles of Economics*, that not only land, labor and capital should be considered as factors of production but also “organization”. By organization Marshall meant a number of phenomena, including the individual firm as well as a dynamic collection of firms in the same geographical area, which he termed “industrial district” (Marshall, 1961 [1890], 1: 138–139, 240–313). The insight that organization is crucial to profit-making is also at the heart of what is known as organizational economics, which draws on a mixture of agency theory, game

theory, transaction cost analysis, and law and economics—but not on sociology (Barnes and Ouchi, 1986; Milgrom and Roberts, 1992).

Also sociologists have developed a series of conceptual tools that can be used to analyze the way that the factors of production come together in the profit-making firm. Sociologists, however, are to a certain extent held back from making the contribution they should be able to make by their fixation with the stance of organization theory that the relevant unit of analysis is the generic organization and not the corporation (Davis and McAdam, 2000). Research on firms is quickly transformed into knowledge about organizations in general (Perrow, 2002). The following facts about the modern firm are typically ignored in organization theory: 1 / that the firm has its own institutional history; 2 / that the firm is treated differently from other organizations in laws and regulations; and 3 / that firms in modern society control more economic resources than any other type of organization (with the possible exception for the State).

Regardless of this critique, it is clear that several of the tools that have been developed in organization theory can be of considerable help in analyzing corporations; and to some extent they have already been used for this purpose. This, for example, is true for population ecology as well as for resource dependency (Burt, 1983; Carrol and Hannan, 1995). Networks also represent a helpful tool in tracing the relations between corporations that emerge as a result of their attempts to make a profit (Ebers, 1997). There is furthermore the insight that work groups can develop norms that go counter to the goals of the corporation, so-called opposition norms (Nee, 1998).

It is obvious that the way a corporation is organized will speed up, slow down or block profit-making. What was once thought to represent the ideal design for a firm—the huge, bureaucratically organized firm with much of the knowledge concentrated at the top (Weber, Chandler)—is today much criticized. It is indeed true that new technologies as well as new ways of appealing to the interests of the employees can replace monitoring with interest alignment, and that this has led to changes in the old type of corporation. The point, however (from the perspective of capitalism), is not to create a decentralized or a less formal corporation per se, as organization theorists are prone to argue, but to do whatever it takes to make a profit.

### 3. The sociology of consumption

Consumption, to cite *The Wealth of Nations*, represents the end product of production: "Consumption is the sole end and purpose of all production" (Smith, 1976 [1776]: 660). From the viewpoint of the model of capitalism that has been presented in this chapter, however, things are not that simple. For one thing, how the end result of production is divided between consumption and profit is of crucial importance. The more profit that is taken out by the owners and fed back into production, the faster the wheels of capitalism will spin.

There is also the fact that consumption will affect the productivity of labor. In terms of Fig. 1, we can imagine a line that goes from consumption to production, via labor as a factor of production. Adequate food and some amount of leisure, which both affect the labor in a positive way, are examples of this. Education that is paid by private means would be another.

But even if consumption may have an indirect effect on production, its main contribution to capitalism is obviously that it takes place in the first place. Given that human beings have to satisfy their material needs, this may sound like a triviality. And so it is—except that consumption always has to increase in capitalism, in contrast to economies based on a redistribution or reciprocity. If this does *not* happen, profit will stagnate and capitalism will lose its vitality. This means that efforts always have to be made, as part of the process of *production*, to encourage consumption as much as possible. In modern capitalist society whole settings in the form of shopping centers and the like have been created, precisely for this purpose. These have aptly been called "means of consumption" (Ritzer, 1999).

Consumption can be speeded up, slowed down or blocked through the impact of various forces—and thereby affect the capitalist machinery. The United States, for example, has from early on been a commercial society, with a population with a strong desire for democratic "comfort", as opposed to aristocratic "luxury"; and this clearly greases the wheels of capitalism (Tocqueville, 1945 [1835-1840]). After September 11—to use another example from the United States—shopping was nearly proclaimed a patriotic duty so that the economy would not slump. Examples also exist of societies that have attempted to block consumption. One well-known

example is Florence in the 15<sup>th</sup> century, when the city was ruled by Savonarola who staged the famous “bonfires of vanities”—that is, public burnings of expensive dresses, sensual paintings, and the like which were judged to detract from a pious life (for sumptuary laws, see Hunt, 1995).

#### 4. The sociology of profit

The fact that the level of profit is directly related to how much is set aside for consumption, has already been mentioned. To this can be added that profit, according to economists, can in principle not be affected by social forces. Sociologists, however, see things differently. To sociologists productivity is notoriously difficult to measure, and the theory of marginal productivity is very difficult to apply empirically. It is also clear, as noted earlier, that the social relations of an employee will affect productivity. A worker may, for example, be more or less productive depending on the work group that he or she is part of (Granovetter, 1988). Wages, of course, also affect the profit level and depend, among other things, on the strength of the unions.

Regardless of the actual size of the profit, however, it is the opportunity for more profit that drives the capitalist process forward. According to Weber, capitalism is primarily characterized by “the pursuit of profit, and forever *renewed* profit” (Weber, 1958 [1904-1905]: 17). Marx expressed the same idea in his famous formula  $M-C-M'$ , where  $M$  stands for money,  $C$  for commodity, and  $M'$  for money plus an increment, equaling surplus value (Marx 1990 [1867]: 247-57). In a similar vein, the capitalist process is set in motion by the search for profit and—just as important—kept in motion by the continuous reinvestment of profit in production.

It is clear that while the size of the profit in relation to consumption is one thing, how much of the profit that is reinvested is another. It is also obvious that the level of reinvestment is influenced by social forces. In a discussion of Latin America in the 1960s, S. M. Lipset noted, for example, how successful businessmen in Chile, Argentina, Paraguay and so on often withdrew their earnings from industry and invested it in land, to acquire the status of landowners (Lipset, 1988 [1967]). Protestant businessmen in Weber’s *Protestant Ethic*, on the other hand, withheld very little for their own consumption and reinvested most of the profit. Their

religion allowed them to make a profit since this meant that God looked favorably at their activities, but not to indulge their senses. Just as sex was for reproduction and not for pleasure, profit was for reinvestment and not for enjoyment.

According to Weber, accounting grew out of the need to calculate profit, as exemplified by the need to know exactly how much was due to each party in a *commenda* enterprise (Weber, 1981 [1923]: 206–207). To this can be added that profit is a social construction, in the sense that what is presented as profit in, say, an annual report may differ quite a bit from what is reported as profit to, say, the tax authorities. As any newspaper reader knows by now, the way that accounting rules are applied will also affect the level of profit. “Aggressive accounting” is, for example, the term currently used in the United States for accounting practices which are used to artificially increase the profits and which are situated in the gray zone between what is legal and illegal.

Among the factors that may block profit and profit-making, religion is of special historical importance. Most religions have been negative to business, since profit-making has been seen as being in conflict with the need to lead a life according to religious principles. “You cannot serve both God and Money” (Matthew, 6: 24). But exceptions also exist where religion and profit-making not only have co-existed, but where religion has actually helped to *increase* profit-making. The most famous case of this is obviously ascetic Protestantism, as analyzed in *The Protestant Ethic*. To this, the example of religion in contemporary America can perhaps be added, since the United States is both the most religious country in the West and the one with the most vigorous capitalism. I say “perhaps” and note that neither sociologists of religion nor economic sociologists have addressed this issue squarely (Inglehart and Baker, 2000; Barro, 2002).

## 5. Factors influencing the basic model of capitalism # 1: The role of law

In addition to the factors that make up the basic model of capitalism, a few more need to be added for the analysis to be reasonably complete: *law, politics (including the State)* and *culture*. Law is typically part of the political machinery but deserves to be treated in a separate section. One reason for this is that law introduces an extra layer, so to

speak, between political decisions and their execution (Swedberg, 2003; Edelman and Stryker forthcoming). To become reality, political decisions often have to be translated into legal language and interpreted by legal experts. The individual actor, as always, also needs to orient his actions to the law itself and comply with it, in order for it to have an effect. A second reason why law deserves to be treated separately from the State, is that courts can be more or less independent from the State. American courts, for example, are to a large extent peopled by judges who have been elected, as opposed to courts in Europe, where judges are appointed and essentially civil servants. Furthermore, all laws in the United States are subject to judicial review and can in principle be overturned. The European Union, it can be added, seems to be moving in a similar direction.

The basic relationship between law and the economy is as follows. Since private property is a precondition for a capitalist economy, so is the law about private property. Conflicts always emerge in society, including the economy, and law represents an important way to settle conflicts. Law also helps to ensure predictability, which is essential for an advanced capitalist economy. In general, the economy thrives on peace; and law is essential for there to be peace in society.

Sociologists have often noted that law is necessary to *prevent* certain economic actions from taking place in the future. Law, for example, is used to stop the formation of monopolies and the discrimination of women and minorities in the labor market (Fligstein 1990; Edelman 1992). Sociologists have also pointed out that law can be used to *punish* economic actors who engage in criminal behavior, from petty thievery in the work place to the kind of economic wrongdoing that is policed by the SEC (Shapiro, 1984; Tucker, 1999).

What has not been much explored by sociologists, however, is that law can play an *enabling* role in the economy (Swedberg, 2003). Law can, for example, help to “release [economic] energy”, as it did in 19<sup>th</sup> century America, according to the famous expression of Willard Hurst (1956). Judges can be encouraged to use wealth maximization as a guide in their legal questions (Posner, 1981). In general, contracts also provide actors with a new tool through which they can create economic relations of their own (Weber, 1978 [1922]: 667).

From what has just been said it is clear that law can further the capitalist process and make it operate in a more efficient manner. It

is also clear that it can block economic development, by forbidding certain kinds of economic actions. One historical example of this would be the labeling of certain loans as usury. To this should be added, however, that businesspeople often choose to disregard the law—they simply ignore it, whether it operates in their favor or not (Macaulay, 1963). Another elementary insight from the sociology of law is that major economic transformations can take place without any equivalent change in the legal system (Weber, 1978 [1922]: 333–334; Renner, 1949 [1904]).

## **6. Factors influencing the basic model # 2:**

### **The role of politics (including the State)**

The role of politics and the State in the economy represents a complex topic. In general, the State in a capitalist economy has less power over the economy than the State in a redistributory one. In the latter the State controls the great bulk of the economic resources and also decides what rules to follow; while in a capitalist economy the State only has the power to set the rules, not to decide how economic resources are to be used for purposes of production. This last situation, as has often been pointed out by economists, is actually more complex than it may at first appear. The capitalist State has to solve what has been called “the fundamental political dilemma of an economy”, namely that the State has to be strong enough to enforce private property rights, but still refrain from using its strength to expropriate private property (North, Summerhill and Weingast, 2000: 21).

That the capitalist State has no control over the use of the economic resources when it comes to production, does not mean that it is without economic resources. No State can exist without economic resources of its own, especially the modern capitalist State with all its tasks to fulfill: defense, education, health care, welfare, regulation, and so on. The capitalist State finances in principle its expenses by seizing part of what has been produced, either from what otherwise would have gone to consumption or to profit. To tap one source rather than another represents an important political decision. The sociological study of the generation and spending of the State’s resources belongs to a much neglected field of study, known as fiscal sociology (Schumpeter, 1991 [1919]).

A question which has been much discussed in contemporary social science is the relationship between democracy and capitalism.

Several different opinions exist on this issue. There is, on the one hand, S. M. Lipset's assertion that prosperous countries tend to be democratic, which has led to a huge amount of research (Lipset, 1960; for a stronger version of this thesis, see Friedman, 1962). One insight that has grown out of the discussion of Lipset's thesis, is that it is very difficult to pinpoint the exact social mechanisms that account for the relationship between prosperity and democracy (for a review of the literature, see Diamond, 1992). Weber, in contrast, considers the relationship between capitalism and democracy to be highly contingent, and he has recently been backed up by Robert Barro (Weber, 1994 [1916]: 68-70; Barro, 2000). A third theory states that countries which have been industrialized under the leadership of the bourgeoisie tend to become democratic, as opposed to countries which have been industrialized under the leadership of a class of landowners (Moore 1966; Rueschemeyer, Stephens and Stephens, 1997).

Democratic or not, it is clear that the capitalist State can steer the economy in various ways. Two traditional ways of doing so are through fiscal and monetary policy—two topics on which economists are knowledgeable, as opposed to sociologists. To this should be added that the State also can influence the economy through regulation and industrial policy; and that especially the former is extremely important in modern society. While economists worry that these last two ways of influencing the economy may sap capitalism of its vitality, sociologists tend to see them as positive and much needed (see Stigler, 1971 *vs* Fligstein, 2001). Regulations as well as industrial policy, of course, can be used to speed up the economy as well as slow it down—and so can monetary and fiscal policy.

## **7. Factors influencing the basic model #3:**

### **The role of culture in the economy**

Culture is a difficult topic, for economists as well as sociologists. In sociology, the traditional concept of culture draws heavily on Weber and essentially covers the following two areas which are overlapping but not identical: *valuation* and *sense-making* (Weber, 1949 [1904]: 76 ; 1977 [1907]: 109; 1978 [1922]: 98). Or to put it in more concrete language, the cultural element of an economic action has to do with the fact that 1 / anything economic is typi-



cally viewed as being positive or negative, and 2 / that economic phenomena, like all human phenomena, have to be perceived through human eyes in order to make sense and become an identifiable phenomenon in the first place.

To cite one of the texts in Weber's philosophy of the social sciences that deals with the first point: "The concept of culture is a *value-concept*" (Weber, 1949 [1904]: 109). And to cite one of his examples which illustrates how people make sense of an economic phenomenon with the help of culture: the act of passing around little metal pieces only becomes an exchange of money under certain conditions, which have to do with the perception of what is going on by the actors (Weber, 1977 [1907]: 109).

It can be added that whether trade in money is seen as something positive or something negative in society is also that a question which involves culture. In nearly all cultures this type of activity has been looked down upon and been associated with various minority groups, such as the Jews in medieval Europe or the Indians in Asia. This is much less the case in modern capitalism—where nonetheless traces of these earlier beliefs still linger on, as can be seen in the hostility to someone like Soros or to financial capital more generally.

Attempts have recently been made to inject some insights from cognitive psychology into the concept of culture (DiMaggio, 1997). To what extent this will succeed or not is too early to tell. What remains true, however, is the fruitfulness of the Weberian approach, equating culture with values as well as with sense-making or the construction of economic phenomena through their meaning structures. A series of studies of economic culture, from Tocqueville's analysis of 19<sup>th</sup> century America to Clifford Geertz's analysis of Indonesia in the 20<sup>th</sup> century, testify to this (Tocqueville, 1945 [1835–1840]; Geertz, 1963; see also Lipset, 1996).

Some of these studies also describe how economic culture can speed up the economic process. This, for example, is what Tocqueville claims that American culture did for the economy in the 19<sup>th</sup> century or, for that matter, what Weber claims that ascetic Protestantism did for certain parts of Western Europe a few centuries earlier. Indeed, Tocqueville's *Democracy in America* can be seen as a sequence to *The Protestant Ethic* in this respect; and his theory of the role played in economic life by the American religion (tempering immediate interest into "interest properly understood") parallels Weber's theory of impact of the ideas of Calvin and others.

That economic culture also can dampen as well as block capitalist development can similarly be illustrated by referring to the works of Tocqueville and Weber. The culture in the American South, according to *Democracy in America*, devalued labor which was associated with slavery, and this led to a stagnant economy. The same was true according to Weber for societies with a dualistic economic ethic, according to which members of the in-group should be treated fairly, while dishonesty and trickery was allowed in dealing with outsiders.

## 8. Concluding remarks

Material and ideal interests directly govern men's behavior.

Max Weber, *The Sociology of Religion*.<sup>3</sup>

An attempt has been made in this article to outline a model of capitalism which can be of help in setting an agenda for an economic sociology of capitalism. According to the argument which has been presented, production, exchange, consumption and profit should constitute the four main topics in an economic sociology of this type; and to this must be added the impact that law, politics and culture have on these. More has been left unsaid than said, as is often the case when vast topics are addressed. Nonetheless, it is hoped that the core of this argument will prove useful, namely the need to set interests and the way that these are played out within social relationships at the very center of the analysis. Economic sociology, I argue, should not only look at social relations—be it in the form of networks, organizations, institutions and so on—it also has to take into account what drives social action, namely interests. A useful point of departure for the analysis of economic sociologists may be the following maxim: *follow the interests*.

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3. This quote comes from H. Gerth and C. Wrights Mills (1946: 212).

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