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I

The Classics in Economic Sociology

There exists a rich and colorful tradition of economic sociology, which roughly began around the turn of the twentieth century and continues till today. This tradition has generated a number of helpful concepts and ideas as well as interesting research results, which this and the following chapter seek to briefly present and set in perspective. Economic sociology has peaked twice since its birth: in 1890–1920, with the founders of sociology (who were all interested in and wrote on the economy), and today, from the early 1980s and onward. (For the history of economic sociology, see Swedberg 1987, 1997; Gislain and Steiner 1995). A small number of important works in economic sociology—by economists as well as sociologists—was produced during the time between these two periods, from 1920 to the mid-1980s.

The main thesis of this chapter, and of this book as a whole, is as follows: in order to produce a powerful economic sociology we have to *combine* the analysis of economic interests with an analysis of social relations. From this perspective, institutions can be understood as distinct configurations of interests and social relations, which are typically of such importance that they are enforced by law. Many of the classic works in economic sociology, as I shall also try to show, hold a similar view of the need to use the concept of interest in analyzing the economy.

Since my suggestion about the need to combine interests and social relations deviates from the existing paradigm in economic sociology, a few words will be said in the next section about the concept of interest as it has been used in social theory. This may seem as something of a detour, but the reason for beginning with a general section on interests is that it will help explain why this concept is so useful. This presentation will then be followed by a section on what I call classical economic sociology and that primarily discusses the work of Tocqueville, Marx, Weber, Durkheim and Simmel. A few pages will be devoted to what happened after the classics and before the current revival (which started in the 1980s). The key persons during this period are Schumpeter, Polanyi, and Parsons.

The Role of Interest in Social Analysis

Ever since the Middle Ages, one form or another of what can be called interest analysis has been widely used to study society in the

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West. (The history of this type of analysis is little known; see, however, Orth et al. 1982; Hirschman 1986; Holmes 1990; Peillon 1990.) The term "interest" was originally economic in nature (as in "rate of interest") and can be found in such places as Roman law. During this early stage the term "interest" was restricted in meaning and held at best a peripheral place in the discourse of the time. This changed when the concept of interest started to be used in political life. During the seventeenth century interest became a fashionable concept, oscillating between a synonym for ruthless, Machiavellian behavior on the part of the rulers and simply a helpful way of analyzing people's behavior. It was during this time that the maxim "Interest Will Not Lie" became popular. References were also made to various group interests, such as "legal interests," "landed interests," and "monied interests" (Gunn 1968).

During the seventeenth century, especially in French moral philosophy, a psychological concept of interest was developed by people like La Rochefoucauld and Pascal (see Heilbron 1998). Some of the complexity that these authors brought to it can be illustrated by La Rochefoucauld's maxim "Self-interest blinds some, but enlightens others" ([1665] 1959:42). Several eighteenth-century philosophers, most importantly David Hume, were also fascinated by the role of interests in human affairs, as is evident from *A Treatise of Human Nature* (1739–40) as well as from *Essays* (1741). Hume broke, for example, with the idea that interests were somehow fixed, once and for all, and were the product of human nature and biology: "Though men be governed by interest, yet even interest itself, and all human affairs, are entirely governed by opinion" ([1741] 1987:51). On this point he differed from the French philosopher Hélvetius, who a little later stated that "as the physical world is ruled by the laws of movement, so is the moral universe ruled by laws of interest" (cited in Hirschman 1977:43).

That economists also found the concept of interest useful is clear from a number of passages in *The Wealth of Nations* (1776) by Adam Smith. The most famous of these reads as follows:

> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages ([1776] 1976:26–7).

As is well known, Smith also suggests that individual interests somehow end up furthering the general interest, as if guided by "an invisible hand." But even if Smith was fascinated by the positive role of self-interest, he was also well aware that interests other than self-interest drive the individual. In the opening line of *The Theory of Moral*

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Sentiments he notes, for example, that "However selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it" ([1759] 1976:47).

By the nineteenth century the concept of interest made possible a flexible type of social analysis, with interests opposing one another, blocking one another, reinforcing one another, and so on. Individuals had their interests and so did groups; there was "the public interest" as well as the interests of each and every citizen. The concept of interest also plays a key role in the analysis of such subtle thinkers as John Stuart Mill and Tocqueville. Toward the end of the century, however, economists began to restrict the term to mean exclusively "economic interests" and eventually also to replace it with other terms, such as utility and preferences. Economic interest now became part of *homo economicus*, that is, of the isolated, all-knowing, and maximizing economic agent (see, e.g., Persky 1995). Instead of suggesting hypotheses to be explored empirically, the analysis now began as well as ended with (economic) interests. A restricted type of interest analysis, in brief, began to replace the rich and complex type of interest analysis that had been used during the earlier centuries. During the twentieth century this tendency solidified and is still the one that prevails in economics and, to a large extent, in social science as a whole.

One fact that is not mentioned in the histories of the concept of interest is that a *sociological concept of interest* was developed during the late nineteenth and the early twentieth centuries, especially in the works of Weber and Simmel. More will be said about this development later. Here it suffices to note that central to this idea is that interests can only be conceptualized, expressed, and realized in social terms and through social relations—a position that runs counter to that of modern economics.

My own view of interests is close to that of Weber, and I shall therefore start out by saying a few words about what is undoubtedly Weber's most famous statement on interests. It is to be found in a programmatic part of his work in the sociology of religion and has already been cited in the preface:

> Not ideas, but material and ideal interests, directly govern men's conduct. Yet very frequently the "world images" that have been created by "ideas" have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest ([1915] 1946b:280).

According to this quote, interests drive people's actions but the social element (here, religion) determines what expression and direction these actions will take. Interests can be material as well as ideal (that

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is, religious, political, and so on). All interests are social in the following two ways: they are part of the society into which the individual is born; and the individual has to take other actors into account when she tries to realize her interests.

There are several advantages to using the concept of interest in a sociological analysis of the economy. For one thing, there is a chance that one would otherwise fail to understand *the strength* that underlies an action. What makes people go to work every day, and what drives each and every private corporation, is first and foremost economic interest. The concepts of power and power resources cover some of the same phenomena as interest, but by no means all. Secondly, interests may help to explain why one route of action was taken, rather than another. While some alternatives may be very attractive to the actor, due to her interests, others may have no interest at all. In other words, interests influence the decision of the actor, or her *choice*.

Similarly, by using the idea of economic interest a *dynamic* is brought into the analysis, which differs from the one that is driven exclusively by social interaction. Interests can oppose each other, they can reinforce each other, and so on. Economic interests, a little like sexual interests, are often to be found somewhere in the background, waiting for an opportunity to be realized. And if they are repressed, they may still pop up—a bit like a black market usually appears if the state forbids the sale of an item. Finally, through the concept of interest, we can establish a natural link not only to the biological side of human beings but also to their environment. Economic interests are ultimately rooted in the needs of the human organism and its dependence on the environment.

Equally as important as introducing the concept of economic interest into economic sociology, I argue, is to avoid the stance of mainstream economics vis-à-vis interests, which is usually profoundly asociological and even naturalistic in nature. Several points need to be made here. First, the notion of interest that I am advocating is close to what Alfred Schutz calls a "construct of the second degree," namely an analytical concept that has been invented by the social scientist to analyze social reality ([1953] 1971:6). The concept of interest, in other words, is an analytical tool.

Second, in realizing her interests the actor has to orient herself to other actors in various ways; the social structure must consequently always be part of the analysis. Third, as opposed to the economists, for whom there only exists one type of interest (which, by assumption, is fully understood by the maximizing economic actor), economic sociology is free to draw on the rich tradition of interest analysis, which goes far back in Western thought. According to this

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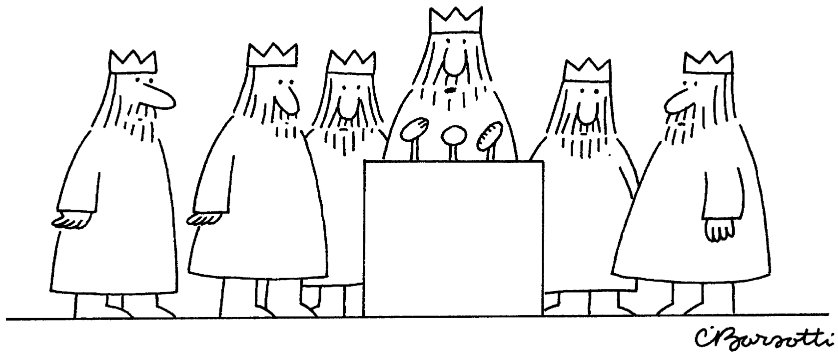

"Good question. Yes, we have your best interests at heart."

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tradition, many different types of interests exist, and these can all enter into different combinations with one another. Finally, in economics the concept of interest is sometimes used as a tautology, and this is obviously something that has to be avoided in a sociological interest analysis.

Once the difference has been properly outlined between the sociological concept of interest and the type of interest that can be found in mainstream economics, it should immediately be emphasized that an extra advantage to using the concept of interest for economic sociologists is precisely that it allows for a natural dialogue with the economists. In economics the concept of interest has been at the very center of the analysis since the days of Adam Smith. If there ever is to be a unified social science of economics, the concept of interest—together with the idea of social interaction—is likely to be its foundation (for further discussion of the concept of interest in sociology, see pp. 297–99).

Classical Economic Sociology and Its Predecessors

The first use of the term "economic sociology" is thought to have occurred in 1879, when it appeared in a work by British economist Jevons ([1879] 1965:xvii). The term was then taken over by the sociologists, and it can be found in the works of Durkheim and Weber during the period 1890–1920 (for example, "*sociologie économique*," "*Wirtschaftssoziologie*"). It was also during these decades that classical economic sociology was born, in such works as *The Division of Labor in Society* (1893) by Durkheim, *The Philosophy of Money* (1900) by Sim-

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mel, and—by far most importantly—*Economy and Society* (written between 1908 and 1920) by Weber. What characterizes classical economic sociology, as I shall call it, is primarily the following: First, there was a sense among Weber and his colleagues of being pioneers and of constructing a new type of analysis. Secondly, there was a focus on such fundamental questions as, What is the role of the economy in society? How does the sociological analysis of the economy differ from that of the economists? To this must be added that there was also an attempt to size up capitalism and understand its impact on society—"the great transformation," as Polanyi put it.

In hindsight there are clearly several works from before the 1890–1920 period that in one way or another prefigure some of the insights of economic sociology. Important reflections on trade and other economic phenomena can, for example, be found in *The Spirit of the Laws* (1748) by Montesquieu. This work also contains a pioneering comparative analysis of the way in which economic phenomena are influenced by different political regimes (republics, monarchies, and despotic states). The role of labor in society is central to the work of Saint-Simon (1760–1825), who also helped to popularize the term "industrialism" (1964). The only two figures before Weber who will be discussed here, however, are Tocqueville and Marx. Tocqueville is of special interest since his analysis of economic phenomena, including its sociological dimension, has attracted next to no attention. Marx is a towering figure in nineteenth-century thought and very much part of a tradition that helped to inspire the creation of economic sociology.

Alexis de Tocqueville

The first contributor to economic sociology whom I shall discuss—Alexis de Tocqueville (1805–59)—had been trained in law, and most of what he knew about economics came from his own studies as a young man (mainly of the work of Jean-Baptiste Say). Later in life he also would learn quite a bit about economics from conversation with friends such as John Stuart Mill and Nassau Senior. Tocqueville was mainly interested in politics, but in his analysis he typically covered all of society and often touched on economic topics. As one of his admirers, Joseph Schumpeter, expressed it: Tocqueville "painted to a considerable extent in economic colors" (1954:820). Tocqueville's most important works, in so far as his analysis of the economy goes, are his two major studies: *Democracy in America* (1835–40) and *The Old Régime and the French Revolution* (1856). Some additional information can also be found in Tocqueville's minor writings, such as "Memoir on Pauperism" (1835).

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Democracy in America is important to economic sociology primarily for its analysis of American economic culture in the early nineteenth century and for its attempt to contrast aristocratic and democratic societies, in their political as well as in their economic dimensions. Coming from a society that was highly regulated by the state, Tocqueville marveled at the United States, which he traversed for nine months in 1831–32. The citizens in this "commercial nation" had a totally different attitude to risk than the Europeans; they were also much more tolerant of economic failures and bankruptcies. When Tocqueville described the relationship of Americans to economic matters, he often used expressions that mixed interests with emotions: "commercial passions," "love of wealth" and the like. This did not mean that the Americans were not rational. In a lengthy discussion of what he called "the principle of self-interest rightly understood" Tocqueville argued that Americans thought that it was in their self-interest to behave morally and in accordance with religion—and that this taught them patience as well as made them methodical and efficient in economic affairs: "It is held as a truth that man serves himself in serving his fellow creatures and that his private interest is to do right" ([1835–40] 1945, 2:129). Tocqueville often referred to different types of interest in *Democracy in America*, such as "self-interest," "public interest," "material interest," and so on. He also argued that while the family was the key unit in aristocratic societies, in democratic societies it is the individual with her interests.

Tocqueville was deeply fascinated by the role that organizations played in the United States, again in contrast to France, where the state controlled the right to create organizations. Everywhere he traveled he found organizations—religious organizations, political organizations, economic organizations, and so on. "Americans of all ages, all conditions and all dispositions constantly form organizations" ([1835–40] 1945, 2:114). Tocqueville believed that organizations could play a crucial role in turning democratic societies in a progressive direction, by mediating between the isolated individual and the state. He also observed that by taking part in various voluntary organizations, Americans acquired useful knowledge that they later could use when they wanted to start up an economic organization of their own. On this point Tocqueville is close to some contemporary arguments about social capital.

Let me stress that the dynamic economic culture that Tocqueville encountered in the United States was limited to states without slavery. Wherever slavery was permitted, there was little economic progress. One of the most striking passages in *Democracy in America* describes what Tocqueville saw when he sailed the Ohio River, with Kentucky on one side, and Ohio on the other:

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> Upon the left bank of the stream the population is sparse; from time to time one descries a troop of slaves moving slowly in the half-desert fields; the primeval forest reappears at every turn; society seems to be asleep, man to be idle, and nature alone offers a scene of activity and life.
>
> From the right bank, on the contrary, a confused hum is heard, which proclaims afar the presence of industry; the fields are covered with abundant harvests; the elegance of the dwellings announces the taste and activity of laborers; and man appears to be in the enjoyment of that wealth and contentment which is the reward of labor. . . .
>
> Upon the left bank of the Ohio labor is confounded with the idea of slavery; while upon the right bank it is identified with that of prosperity and improvement; on the one side it is degraded, on the other it is honored ([1835–40] 1945, 1:376–77).

Also *The Old Régime and the French Revolution* is of much interest to economic sociology, especially for its analysis of taxation and the Physiocrats. Throughout the centuries the French state was always on the lookout for new income and displayed much ingenuity in this pursuit. The result was a multitude of different taxes and fees, levied especially on the nonprivileged strata. An important and unanticipated consequence of freeing the aristocracy from certain taxes and burdens, Tocqueville notes, was resentment, especially among the peasants; and in general the system of taxation set the different classes against one another. Tocqueville also notes that taxes and loans were functional alternatives for the ruler. His portrait of the Physiocrats, finally, has more to say about the political ideals of their leader, Quesnay, and his colleagues than about their economic ideas; and it is precisely in this that his analysis is innovative. The Physiocrats, as it turns out, greatly admired the Chinese bureaucracy, and basically wanted to create a centralized state—exactly what Tocqueville feared and detested.

Karl Marx

The second major predecessor to economic sociology was Karl Marx (1818–83). Like Tocqueville, Marx had been trained in law (and in philosophy), but was self-taught in economics. As opposed to his French contemporary, however, Marx was obsessed with the role of the economy in society and developed a theory in which the economy determines the general evolution of society. What drives people in their everyday lives, Marx argues, is material interest, and this also determines the structure and evolution of society at large. While Marx

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wanted to develop a strictly scientific approach to society, his ideas were infused by his political desire to change the world. "The philosophers have only *interpreted* the world, in various ways," he wrote in his youth, "the point, however, is to change it" ([1845] 1978:145). The end result was Marxism—a mixture of social science and political ideology, wielded together into a single doctrine.

For a variety of reasons it is obvious that economic sociology cannot accept Marxism on its own terms. Apart from the errors common to most of nineteenth-century thought, Marx's work is much too tendentious and dogmatic to be adopted as a whole. The task that confronts economic sociology today is instead to decide which parts of Marxism can be helpful, and then extract these. In doing so, it may be useful to follow the suggestion of Schumpeter, and distinguish among Marx as a sociologist, an economist, and a revolutionary (Schumpeter [1942] 1994:1–58). By proceeding in this manner, the unity of Marx's thought is no doubt destroyed, as Schumpeter notes. But a wholesale rejection of Marx is avoided, and what is relevant in his work to economic sociology can be salvaged.

As of today, very little effort has been made to extract those parts of Marx's work that may be helpful to economic sociology; and what follows should therefore be seen as preliminary in nature. Marx's point of departure, in his mature work, is labor and production. People have to work in order to live, and this is something that is true for *all* societies. "Labor," to cite a central passage in *Capital*, "is a necessary condition, independent of all forms of society, for the existence of the human race" (Marx [1867] 1906:50). Material interests are universal; and labor is social rather than individual in nature since people have to cooperate with one another in order to survive.

Marx severely criticized the economists for their use of the isolated individual in their analyses; and he sometimes spoke of "social individuals" to make it clear that the individual is always connected to other people (e.g., Marx [1857–58] 1973:84–85). The most important interests are similarly of a collective nature—what Marx calls "class interests." These interests, however, will be effective only if people recognize themselves as belonging to a certain class. Marx notes, for example, in *The Eighteenth Brumaire of Louis Bonaparte* that during the mid-nineteenth century the peasants were "incapable of enforcing their class interest. . . . The identity of their interests begets no unity . . . they form no class" ([1852] 1950:109).

Marx severely criticized Adam Smith's idea that individual economic interests somehow come together and further the general interest of society, as through "an invisible hand." It is rather the case, according to Marx, that classes fight each other with such ferocity that

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history becomes written in "letters of blood and fire" ([1867] 1906: 786). Bourgeois society is no exception on this score since it encourages "the most violent, mean and malignant passions of the human heart, the Furies of private interest" (15).

In works such as *The Manifesto of the Communist Party* (1848; coauthored with Friedrich Engels), *Grundrisse* (1857–58), *A Contribution to the Critique of Political Economy* (1859), and *Capital* (1867), Marx traces the history of the class struggle, from early times to the future that he envisions. In a famous formulation from the 1850s, Marx states that at a certain stage the "relations of production" enter into conflict with "the forces of production," and the result is revolution and passage to a new "mode of production" ([1859] 1970:21). In *Capital*, Marx writes that he has laid bare "the economic law of motion of modern society," and that this law works "with iron necessity towards inevitable results" ([1867] 1906:13–4).

Economics, philosophy, and law do not represent independent attempts to understand human society, as its practitioners typically believe, according to Marx, but are part of the class struggle and reflect what goes on in the economy. They are part of society's "superstructure," as opposed to its "base" (e.g., Marx [1859] 1970:21). Another way to phrase this would be to say that economics, philosophy, and law express the interests of various classes, but since the practitioners of these disciplines are not aware of this, their areas of study tend to become "ideology."

A positive quality to Marx's approach is his realism and insight when it comes to understanding the strength with which people have been willing to fight for their material interests throughout history. He has also contributed to the understanding of the way in which large groups of people, with similar economic interests, tend to unite under certain circumstances in an attempt to realize their interests. Having effectively linked the concept of class to the economic structure of the economy, he moved without effort from the individual worker to capitalism as a whole. Marx also worked very hard to keep up with economics, and he should be credited with having discovered many areas of social behavior that, contrary to what was thought at the time, are indeed influenced by economic interests. Law, economics, philosophy, and so on are all influenced by economic forces—even if there is more to the story than that.

On the negative side, from the viewpoint of economic sociology, Marx severely underestimated the role that interests other than economic ones play in economic life. His notion that economic interests *in the last hand* determine what goes on in society is impossible to defend. "Social structures, types and attitudes are coins that do not

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readily melt," as Schumpeter notes in *Capitalism, Socialism and Democracy* ([1942] 1994:12). Marx's attempt, finally, to turn his analysis into a philosophy of history is also unacceptable from the viewpoint of modern economic sociology. There is quite a distance, in other words, between Marx's work and that of economic sociology.

Max Weber

Among the classic authors in economic sociology Max Weber (1864–1920) occupies a unique place. It was Weber who made the first sustained attempt to develop a distinct economic sociology—both to lay its theoretical foundation and to carry out empirical studies with its help (Swedberg 1998). His experience as a professor of economics for many years was no doubt helpful in these efforts. Also very important is the economic as well as social nature of the major research task that occupied Weber's mind throughout his career, namely to understand the origin and nature of modern capitalism. In his own work, Weber drew heavily on the general interest analysis of his time—which he also did much to improve, mainly by making it more sociological.

Weber's academic training was broad in nature, and its main emphasis was on law, with history of law as his specialty. He wrote two dissertations, as was necessary at the time to qualify for a university position in Germany—one on medieval trading corporations and another on the sale of land in early Rome. His adviser for the first dissertation was Levin Goldschmidt, the foremost expert in the nineteenth century on the history of commercial law; and for the other August Meitzen, a well-known historian of agriculture. Both dissertations, it should be noted, covered developments that were crucial to the rise of capitalism: the invention of the firm and the emergence of private property in land.

Weber's two dissertations, in combination with a commissioned study of rural workers, caught the attention of several economists, and in the early 1890s he was offered a position in economics ("political economy and finance"), first in Freiburg and then in Heidelberg. In this capacity he taught a number of courses in economics, even though he primarily published in economic history and on policy questions. Weber wrote, for example, voluminously on the new stock exchange legislation in Germany, which represented a hotly contested subject around the turn of the century (Weber 1999, [1894–96] 2000). A detailed outline for one of Weber's introductory courses in economics has also survived, and it shows that Weber was very familiar with both the analytical tradition of British economics and the social-

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historical approach of German economics (Weber [1898] 1990). For theoretical tasks, the analytical tradition was very helpful, Weber argued, but once the analysis dealt with empirical topics, it had to be supplemented with insights from the historical tradition.

Toward the end of the 1890s Weber fell ill, and for the next twenty years he would work as a private scholar. It was during these years that he produced his most celebrated study, *The Protestant Ethic and the Spirit of Capitalism* (1904–05), as well as a series of related studies of the economic ethics of the world religions. In 1908 Weber accepted a position as chief editor of a giant handbook of economics, to which a number of prominent German and Austrian economists agreed to contribute, *Grundriss der Sozialökonomik* (*Fundamentals of Social Economics*). From the very beginning Weber set aside the topic of "economy and society" for himself, to complement such subjects as "economy and technology" as well as "economy and population." The work that today is known as *Economy and Society* consists, in its current English version, of material that Weber had intended for publication and of various manuscripts that were found after his death, which the editors of Weber's work erroneously thought should be part of it (for the history behind *Economy and Society*, see, e.g., Mommsen 2000). Just before his death in 1920 Weber had sent off the first four chapters of part 1 to the printer; the rest of the material in *Economy and Society* he would in all likelihood have revised, rewritten, or discarded (Weber [1922] 1978:1–307).

In 1919–20 Weber also taught a course in economic history, which was pieced back together after his death on the basis of students' notes and which today is known as *General Economic History*. Though primarily a work of economic history, *General Economic History* ([1923] 1981) contains much interesting material for the economic sociologist and can be read as a complement to the difficult theoretical chapter on economic sociology in *Economy and Society* (chapter 2, "Sociological Categories of Economic Action").

Much of what Weber wrote in economic sociology can be found in the following two works: *Economy and Society* (1922) and *Collected Essays in the Sociology of Religion* (1920–21). The latter contains *The Protestant Ethic* (in a revised version from 1920), "The Protestant Sects and the Spirit of Capitalism" (1906; rev. 1919–20), and voluminous writings on the economic ethics of the world religions, including *The Religion of China* ([1920] 1951), *The Religion of India* ([1921] 1958), *Ancient Judaism* ([1921] 1952), and a few other texts (see Weber [1920] 1958, [1915] 1946a, [1915] 1946b). According to Weber, the material in *Collected Essays* falls primarily in the sociology of religion but is also of interest to economic sociology. The most important single study is

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no doubt *The Protestant Ethic* (for a more detailed discussion, see chapter 9).

The quotation that was cited in the preface on how ideal and material interests drive people's actions, but on tracks laid by ideas, comes from *Collected Essays in the Sociology of Religion* and summarizes the way in which Weber uses the concept of interest to understand religion. *The Protestant Ethic* is, for example, centered around an interest analysis of this type, and this is what gives the study its special flavor. The individual believer in ascetic Protestantism is driven by a desire to be saved (a religious interest) and acts accordingly. In doing so, she follows "the tracks" laid out by the worldview of her religion. For various reasons the individual eventually comes to believe that secular work, carried out in a methodical manner, represents a means to salvation—and when this happens, her religious interest combines with her economic interest. The result of these two interests coming together represents, on a collective level, an immensely powerful concentration of human energy, which helps to shatter the hold of traditional religion over people's lives and to release the spirit of modern capitalism.

While he was writing *The Protestant Ethic*, Weber published an essay that nicely summarizes the theoretical stance in his early analysis of the economy, "'Objectivity' in Social Science and Social Policy" ([1904] 1949). Some of the concepts and ideas that are introduced in this essay are still very useful today, such as the idea that the science of economics should be broad and umbrella-like in character (*Sozialökonomik*; 64–65). "Social economics," according to this view, should not only include economic theory but also economic history and economic sociology.

Weber argues that economic analysis should not only cover "economic phenomena" but also "economically relevant phenomena" and "economically conditioned phenomena" ([1904] 1949:64–65; see figure 1.1). Economic phenomena consist of economic norms and institutions, which are often deliberately created for economic ends and are primarily significant to people because of their economic aspect. Examples include corporations, banks, and stock exchanges. Economically relevant phenomena are noneconomic phenomena that may have an impact on economic phenomena. A paradigmatic example is ascetic Protestantism, as analyzed in *The Protestant Ethic*. Economically conditioned phenomena, finally, are phenomena that to some extent are influenced by economic phenomena. The type of religion that a group tends to adopt is, for example, partly dependent on what kind of work its members do. While economic theory can only handle economic phenomena (in their rational version), economic history

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"Religious freedom is my immediate goal, but my long-range plan is to go into real estate."

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Figure 1.1. The Subject Area of Social Economics, according to Weber.

Note: In his early work Weber saw the study of economics (*Sozialökonomik*) as consisting of the following three parts: the study of the economy ("economic phenomena"), phenomena that influence the economy ("economically relevant phenomena"), and phenomena that are partly influenced by the economy ("economically conditioned phenomena").

Source: Max Weber, "'Objectivity' in Social Science and Social Policy," pp. 64–65 in *Essays in the Methodology of the Social Sciences* (New York: Free Press, 1949).

and economic sociology can also deal with economically conditioned phenomena and economically relevant phenomena.

A somewhat different approach, both to economic sociology and to interests, can be found in *Economy and Society* ([1922] 1978), especially in its key chapter (63–211) on theoretical economic sociology, which Weber wrote in 1919–20. *Economy and Society* represents first and foremost an attempt by Weber to develop a new and stringent approach to sociology; and especially two of the concepts he discusses here are important theoretical building blocks in this effort. These are "social action" and "order" (*Ordnung*). The former consists of two parts: "action," which is defined as behavior invested with a meaning, and "social," which means that the action is oriented to some other actor. An order comes into being when social actions are repeated over a period of time and come to be seen as objective. Orders are also often surrounded by various sanctions, which gives them additional stability and permanency. Economists study pure economic action, which is an action exclusively driven by economic interests—or "desire for utilities," in Weber's formulation ([1922] 1978:63). Economic sociologists, on the other hand, study *social* economic action, or action that is driven by economic interests *and* oriented to other actors. Social economic actions are not only driven by economic interest but by tradition and emotions as well.

If for a moment one disregards single actions, Weber says, and instead focuses on empirical uniformities, it is possible to distinguish three different types: those inspired by "custom" (including "habit"), "convention" (norm), and "interest" ([1922] 1978:29–36). Actions that are "determined by interest" (*Interessenlage*) are defined by Weber as instrumental in nature and oriented to identical expectations. They presuppose, in other words, a social setting where other actors think

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in the same instrumental way. One example of this would be the modern market, where each actor is instrumentally rational and counts on everybody else to be rational as well.

Weber strongly emphasizes that interests are always subjectively perceived; there exist no "objective" interests beyond the individual actor. In a typical sentence he speaks of "[the] interests of the actors as they themselves are aware of them" ([1922] 1978:30; for the role of meaning in the constitution of economic phenomena, see, e.g., Weber [1907] 1977:109; cf. [1922] 1978:98). Weber also notes that when several individuals behave in an instrumental manner, in relation to their individual interests, this typically results in collective patterns of behavior that are considerably more stable than when norms are imposed by an authority. It is, for example, difficult to make people do something that goes against their economic interests.

Economic actions of two actors who are oriented to one another, Weber argues, constitute an economic relationship. These relationships can take various expressions, including conflict, competition, and attempts to impose one's will on the other (power). If two or more actors are held together by a sense of belonging, their relationship is "communal"; and if they are held together by interest, it is "associative" ([1922] 1978:38–43). Economic relationships (as all social relationships) can also be open or closed. Property, for example, represents a special form of a closed economic relationship.

Economic organizations constitute another important form of closed economic relationships; and Weber introduces a full typology of different economic organizations. This typology ranges from purely economic organizations to those that have as their main task to regulate economic affairs, such as trade unions (see figure 1.2). Weber attaches especially great importance to the role of the firm in capitalism, which he sees as a revolutionary force.

A market, like many other economic phenomena, is centered around a conflict of economic interests—in this case primarily between sellers and buyers (Weber [1922] 1978:635–40). But exchange is not all there is to a market, according to Weber; there is also competition. Competitors must first fight it out to see who will be the final seller and the final buyer ("struggle between competitors"). It is only when this struggle has been settled that the scene is set for the exchange itself ("struggle over the exchange"). Only rational capitalism is centered around the modern type of market (164–66). In so-called political capitalism the key to profit making is that the political authority grants a favor or in some other way assists private economic interests. Traditional commercial capitalism consists of small-scale trading, in money

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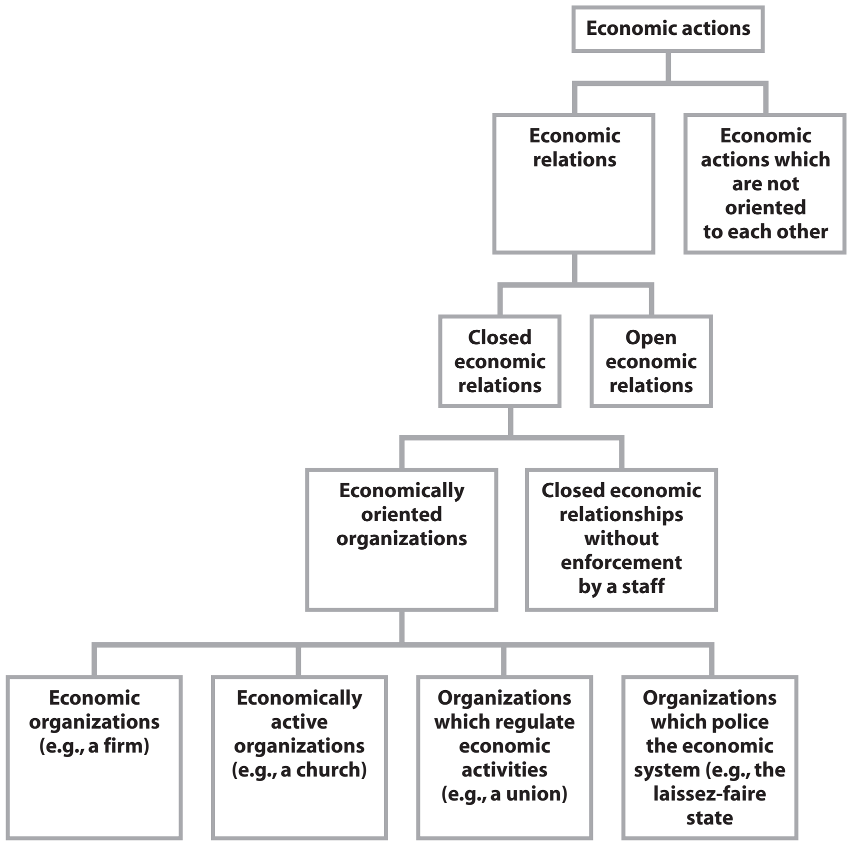

Figure 1.2. From Economic Action to Economic Organizations, according to Weber.

Note: In *Economy and Society* Weber constructs his economic sociology in a systematic manner, starting from economic action and continuing via economic relations to economic organizations.

Source: Max Weber, *Economy and Society: An Outline of Interpretive Sociology* (Berkeley: University of California Press, [1922] 1978), 48–50, 74–75, 340–43.

or merchandise. Rational capitalism, as opposed to the other two forms of capitalism, has emerged only in the West.

This brief overview of Weber's economic sociology is supplemented with several detailed accounts elsewhere in this book. My own opinion is that Weber's work is so rich and complex that it should be experienced firsthand; there is simply no good substitute for exploring his work on one's own. The three texts that I have

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found to be the most useful in economic sociology are *The Protestant Ethic*, *Economy and Society*, and *General Economic History*.

Emile Durkheim

It is clear that Emile Durkheim (1858–1917), compared to Weber, knew less about economics, wrote less on economic topics, and in general made less of a contribution to economic sociology. Such a summary, however, fails to signal the most important fact about Durkheim's work in this context, namely that it is deeply original and still largely unexplored in light of economic sociology (e.g., Steiner 1992, forthcoming). While Durkheim was no expert on economics and never taught economics, he had nonetheless studied many of the major works in the field, such as those by Adam Smith, Mill, Say, Sismondi, Schmoller, and Wagner. While none of Durkheim's own studies can be termed a work exclusively in economic sociology, many of them nonetheless touch on economic topics (see especially *The Division of Labor in Society* [1893] 1984 and *Professional Ethics and Civic Morals* [1950] 1983).

Durkheim also strongly supported the project of developing a *sociologie économique* by encouraging some of his students to specialize in this area, and by routinely including a section on economic sociology in his journal *L'Année Sociologique*. In one of Durkheim's articles on the tasks of sociology and its various subfields, he gives the following definition of economic sociology:

> Finally there are the economic institutions: institutions relating to the production of wealth (serfdom, tenant farming, corporate organization, production in factories, in mills, at home, and so on), institutions relating to exchange (commercial organization, markets, stock exchanges, and so on), institutions relating to distribution (rent, interest, salaries, and so on). They form the subject matter of *economic sociology* ([1909] 1978:80).

Even if none of Durkheim's major works, to repeat, can be labeled a study in economic sociology, the one that comes the closest to this is his doctoral dissertation, *The Division of Labor in Society* ([1893] 1984). Its central argument is that Western society has developed from being undifferentiated to having an advanced division of labor. Economists such as Adam Smith, Durkheim emphasizes, view the division of labor exclusively as an economic phenomenon and are especially fascinated by the increase in production that it entails. What the economists fail to see, however, is the social dimension of the division of

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labor—how it helps to integrate society and make it cohesive, by creating a multitude of dependencies.

As society evolves toward a more advanced division of labor, the legal system also changes. Having been predominantly repressive in nature, and having drawn on penal law, it now becomes restitutory and draws on contract law. In discussing the contract, Durkheim also points out the illusion in believing, as Herbert Spencer does, that a society can function if all individuals simply follow their private interests and contract accordingly. Durkheim notes that "if mutual interest draws men closer, it is never more than for a few moments. . . . [S]elf-interest is the least constant in the world" ([1893] 1984:152). Spencer also misunderstands the nature of the contract. A contract, according to Durkheim, would not be effective in a society where self-interested individuals are allowed to do whatever they want, but only in a society where self-interest is restrained and subordinated to society as a whole. "The contract is not sufficient by itself, but is only possible because of the regulation of contracts, which is social in origin" (162).

A major concern of Durkheim in *The Division of Labor in Society* is that economic advances in Western countries such as France during the late 19th century may wreck society by letting loose individual greed. In Durkheim's work this issue is often cast in terms of the private interest versus the general interest. It is, for example, argued that "subordination of the particular to the general interest is the very well-spring of all moral activity" ([1893] 1984:xliii). In *Suicide* Durkheim also notes that unless the state or some other agency representing the general interest can step in and regulate economic life, the result will be "economic anomie" ([1897] 1951:246, 259). People need rules and norms in order to guide their economic actions, and they react very negatively to anomic or anarchic situations. Suicide, for example, does not only increase when the economy suddenly turns downward, but also when it turns *upward*.

In many of Durkheim's works, including *The Rules of Sociological Method* (1895), one can find sharp attacks on mainstream economics. Throughout his academic career Durkheim firmly believed that if economics were ever to become scientific, it would have to become a branch of sociology. He criticized the idea of *homo economicus* on the ground that it is impossible to separate the economic element from social life and ignore the role of society. As opposed to economic man, he writes, "real man—the man whom we all know and whom we all are—is complex in a different way: he is of a time, of a country; he has a family, a city, a fatherland, a religious and political faith; and all these factors and many others merge and combine in a thousand

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ways, converge in and interweave their influence without it being possible to say at first glance where one begins and the other ends" (Durkheim [1888] 1978:49–50). The point is not that the economists use an abstract approach, Durkheim emphasizes, but that they have picked the wrong abstractions:

> Is not the use of abstractions a legitimate tool of economics? No doubt—it is only that all abstractions are not equally correct. An abstraction consists of isolating a part of reality, not in making it disappear (1887:39).

Durkheim also attacks the economists for being nonempirical and thinking that one can figure out how the economy works by "a simple logical analysis" ([1895] 1964:24). Economists substitute their own ideas for empirical reality, he charges. They then draw conclusions from these—and present the result as applicable to the society that they chose *not* to study in the first place. Durkheim refers to this type of analysis as "the ideological tendency of economics" (25).

Durkheim's own recipe for a harmonious and well-functioning industrial society is known to most sociologists. Each industry should be organized into a number of corporations, in which the individual will find a true home. The individual will thrive because of the warmth that comes from being a member of a group—"a warmth that quickens or gives fresh life to each individual, which makes him disposed to empathize, causing selfishness to melt away" (Durkheim [1893] 1984:lii).

Durkheim was well aware of the role that interest plays in economic life, and in *The Elementary Forms of Religious Life* he stresses that "the principal incentive to economic activity has always been the private interest" (Durkheim [1912] 1965:390). This fact, however, does not mean that economic life is purely self-interested and devoid of morality: "We remain [in our economic affairs] in relation with others; the habits, ideas and tendencies which education has impressed upon us and which ordinarily preside over our relations can never be totally absent" (390). But even if this is the case, the social element has another source than the economy and will eventually be worn down and disappear if it is not periodically renewed. And it can only be renewed if people forget about the economy and come together in collective activities, just for the sake of being together. If this is not done, society will wither away—and eventually so will the economy.

Georg Simmel

It is not known to what extent Georg Simmel (1858–1918) was familiar with economics. He rarely used references in his works, and at the

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most there is an occasional mention of Adam Smith or Karl Marx in the text. It is also true that when Simmel discusses economic phenomena, they are often part of some larger, noneconomic phenomena that interested him, as is the case with Durkheim. Still, Simmel's work contains much that is of value to economic sociology. It is also true that Simmel's work—just like the works of Weber and Durkheim—is still very much unexplored in this respect.

One point illustrating this last statement is that Simmel's major sociological work, *Soziologie* (1908), contains an important analysis of interest. In the main theoretical chapter of this volume Simmel addresses the problem of what a sociological interest analysis should be like and why an analysis of interest is indispensable to sociology. Two of his most central propositions are that interests drive people to form social relations and that it is only through social relations that interests can be expressed. To cite *Soziologie*,

> Sociation is the form (realized in innumerable different ways) in which individuals grow together into a unity and within which their interests are realized. And it is on the basis of their interests—sensuous or ideal, momentary or lasting, conscious or unconscious, causal or teleological—that individuals form such units ([1908] 1971:24).

Another of Simmel's key propositions is that interests, including economic interests, can take a number of different social expressions:

> The identical interest may take on form in very different sociations. Economic interest [for example] is realized both in competition and in the planned organization of producers, in isolation from other groups and in fusion with them (26).

Soziologie also contains a number of suggestive analyses of economic phenomena, including competition. In a chapter on the role of the number of actors in social life, Simmel suggests, for example, that competition can take the form of *tertius gaudens* ("the third who benefits"). In this situation, which involves three actors, Actor A exploits the fact that actors B and C are competing for her favor—to buy or to sell something, for example. Competition is consequently not something that concerns only the competitors (actors B and C); it is also related to Actor A, the target of the competition.

There also exists another and much fuller section on competition in *Soziologie*, in which Simmel contrasts competition to conflict. While a conflict typically means a head-on confrontation between two actors, according to Simmel, competition implies parallel efforts, which means that society can benefit from the actions of both actors. Instead of destroying your opponent, as you do in a conflict, in competition you try to do exactly what your competitor does—only better. Simmel also

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emphasizes the link to the third actor (*tertius gaudens*) in this analysis, and notes how the skillful competitor always tries to figure out what the customer wants, in order to come out ahead of her rivals:

> Innumerable times it [that is, competition] achieves what usually only love can do: the divination of the innermost wishes of the other, even before he becomes aware of them. Antagonistic tension with his competitor sharpens the businessman's sensitivity to the tendencies of the public, even to the point of clairvoyance, in respect to future changes in the public's tastes, fashions, interests ([1908] 1955:62).

The Philosophy of Money (1900) is Simmel's second major sociological work, and it has a somewhat ambivalent status. Durkheim, for example, disapproved of it for its mix of genres, and, according to Weber, economists detested Simmel's way of dealing with economic topics (Frisby 1978; Durkheim [1902] 1980; Weber 1972). Even if it is true that Simmel mixes philosophical reflections with sociological observations in a somewhat idiosyncratic manner; that he draws heavily on anecdotes; and that he supplies no references or footnotes, *The Philosophy of Money* has nonetheless much to give if it is read on its own terms (e.g., Poggi 1993). Simmel's work contains, for example, many insightful reflections on the connection between money and authority, between money and emotions, and between money and trust.

The value of money, Simmel observes, typically extends only as far as the authority that guarantees it—or only within "the economic circle" ([1907] 1978:179–84). Money is also surrounded by various "economically important sentiments," such as "hope and fear, desire and anxiety" (171). Without trust, Simmel argues, society could simply not exist; and "in the same way, money transactions would collapse without trust" (179). In relation to money, he continues, trust consists of two elements. There is first of all the fact that because something has happened before, it is likely to be repeated in the future. People who accept a certain type of money today, for example, are likely to do so tomorrow. This type of trust Simmel calls "a weak form of inductive knowledge." But there is also another type of trust, which has no basis in experience and which can be characterized as a nonrational belief. This last type Simmel calls "quasi-religious faith," and he notes that it is present not only in money transactions but also in those involving credit.

After the Classics

While economic sociology got off to a great start with the classics, it declined after 1920 and would not return to full vigor until the 1980s.

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Exactly why this is the case is somewhat unclear and in need of an explanation. One reason is probably that neither Weber nor Simmel had any students who were interested in economic sociology. It was different with Durkheim, who had several students who wrote on economic topics, although the Durkheimian type of economic sociology eventually declined as well.

The most outstanding study by one of Durkheim's students, it may be added, is *The Gift* (1925) by Marcel Mauss. This work contains the famous argument that a gift should not be mistaken for a one-way act of generosity, but implies an obligation to reciprocate. Mauss also comments on the history of the concept of interest and how its meaning has evolved over time:

> The very word "interest" is itself recent, originally an accounting technique: the Latin word *interest* was written on account books against the sums of interest that had to be collected. In ancient systems of morality of the most epicurean kind it is the good and pleasurable that is sought after, not material utility. The victory of rationalism and mercantilism was needed before the notions of profits and the individual, raised to the level of principles, were introduced. One can almost date—since Mandeville's *The Fable of the Bees* [1714, 1729]—the triumph of the notion of individual interest. Only with great difficulty and the use of periphrasis can these two words be translated into Latin, Greek, or Arabic ([1925] 1990:76).

But even if one is justified in talking of a decline in economic sociology during 1920–80, a small number of important studies were nonetheless produced during this period. Of great value to economic sociology are especiallly the studies of Joseph Schumpeter, Karl Polanyi, and Talcott Parsons (for a presentation of other sociologists' contributions during this period, see Swedberg 1987:42–62). All three produced their most important works while in the United States, but it is clear that their thinking had deep roots in European social thought.

Joseph Schumpeter

It is not possible to discuss the work of Joseph A. Schumpeter (1883–1950) without also saying something about the contribution that economists more generally have made to economic sociology. On the whole one can say that the work of several of the early economists is of great interest to economic sociology. One example is Alfred Marshall (1842–1924), whose analyses are all of much relevance to economic sociology ([1920] 1961, 1919; cf. Aspers 1999). There is also Vilfredo Pareto (1848–1923), with his famous sociological analyses of

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rentiers versus speculators and of business cycles and much more ([1916] 1963; cf. Schumpeter 1951; Aspers 2001b).

The work of Thorstein Veblen (1857–1929) sometimes appeared in sociological journals and is of much relevance to economic sociology. Veblen's most important contributions to economic sociology include his analyses of such topics as consumer behavior ("conspicuous consumption"), why industrialization in England slowed down ("the penalty of taking the lead"), and the shortcomings of neoclassical economics ([1899] 1973, [1915] 1966, [1919] 1990; cf. Tillman 1992). "A vested interest," in Veblen's memorable formulation, "is a marketable right to get something for nothing" (Veblen 1919:100). A final mention should also be made of Werner Sombart (1863–1941), a friend and colleague of Weber. Sombart wrote on the history of capitalism, on the economic temper of his time, and on the need for a "*verstehende* economics" (1902–27, 1930, 1935).

Each of these economists deserves more than a mere mention in a history of economic sociology, but for no one is this more true than for Joseph A. Schumpeter himself (e.g., Swedberg 1991a). Unlike any other economist, Schumpeter succeeded in spanning two periods in modern economics—the period around the turn of the century, when modern economics was born, and the period a few decades later, when it was mathematized and turned into what is known as "mainstream economics." Schumpeter similarly spanned two distinct periods in sociology, through his cooperation with Max Weber in the 1910s and with Talcott Parsons in the 1930s and '40s. Schumpeter is also unique among economists for talking explicitly about economic sociology and for trying to create a special place for it, next to economic theory and economic history. In his effort to open up economics to the other social sciences Schumpeter was clearly inspired by Weber and, like the latter, he referred to this broad type of economics as *Sozialökonomik* or "social economics."

At one point in his work Schumpeter says that while economic theory studies the mechanisms of economic behavior, economic sociology focuses on the institutions within which economic behavior takes place ([1949] 1951:286–87). In *History of Economic Analysis* Schumpeter phrases the same viewpoint in a different way:

> To use a felicitous phrase: economic analysis deals with the questions how people behave at any time and what the economic effects are they produce by so behaving; economic sociology deals with the question how they came to behave as they do. If we define human behavior widely enough so that it includes not only actions and motives and propensities but also the social institutions that are relevant to economic behavior such as government,

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property inheritance, contract, and so on, that phrase really tells us all we need (1954:21).

Schumpeter produced three major studies in sociology. One of these is an article on social classes, which is still of interest today partly because of the way in which Schumpeter contrasts economists' use of the concept of class to that of sociologists ([1927] 1991). While economists see class mainly as a formal category, he argues, sociologists see it as a living reality. This is also the only place in Schumpeter's work where he directly links up his economic theory to his sociological analysis. Schumpeter does this by using his theory of entrepreneurs to explain the rise and fall of bourgeois families. As entrepreneurship fades away, after one or two generations, so do the wealth and the status of the family of the entrepreneur.

Schumpeter's second study is an article about the nature of imperialism ([1919] 1991), which stands up very well in comparison to those by Hobson and others. Schumpeter's basic idea is that imperialism is precapitalistic and deeply irrational in nature, and is essentially an expression of a warrior class or stratum that feels it must constantly conquer new areas or otherwise will fall back and lose power. Capitalism and imperialism, he says, have nothing in common. Any imperialism that exists today is a remnant of feudal times.

Schumpeter's third study in sociology is perhaps the most interesting one from the viewpoint of contemporary economic sociology: "The Crisis of the Tax State" (1918) and its content will be discussed in more detail as part of the analysis of the role of the state in the economy in chapter 7. Schumpeter himself characterized this article as a study in "fiscal sociology" (*Finanzsoziologie*), and the main thesis is that the finances of the state represent a privileged position from which to analyze its actions. As a motto for his study, Schumpeter cites the famous line of the father of fiscal sociology, economist Rudolf Goldscheid: "The budget is the skeleton of the state stripped of all misleading ideology" (Schumpeter [1918] 1991:100).

Capitalism, Socialism and Democracy (1942) was not seen as a work of sociology by Schumpeter himself, but its main thesis is nonetheless deeply sociological in nature: while the motor of capitalism is still intact, its institutional structure is weak and damaged, making it vulnerable and likely to be replaced by socialism. On this last point—the triumph of socialism over capitalism—Schumpeter was obviously wrong, and it is also true that his analysis of the forces that are undermining capitalism may seem odd and idiosyncratic to the contemporary reader. Schumpeter argues, for example, that intellectuals are allowed too much freedom to write what they want, and that the

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bourgeoisie had stopped having families with many children since these were seen as expensive. Nonetheless, Schumpeter should be given credit for suggesting that the way in which intellectuals behave, the way in which the modern family is structured, and so on, *do* have an impact on economic life. Several of the ideas of new institutional economics, it can be added, are to a large extent prefigured by Schumpeter. *Capitalism, Socialism and Democracy* is also shot through with sharp sociological observations about competition, monopoly, and, of course, the key topic of the whole study: *economic change*. With his usual stylistic flair and sense for the contradictory nature of reality Schumpeter referred to this last topic as "*creative destruction*."

The very heart of all Schumpeter's writings is the entrepreneur and how his actions affect the economy (1934: chap. 2). There is no doubt that Schumpeter himself viewed his theory of entrepreneurship as being part of economic theory. More precisely, he saw it as an attempt to create a totally new type of economic theory, which was to be much more dynamic than the one that Walras had created. Nonetheless, many of Schumpeter's ideas on entrepreneurship are sociological in nature and can enrich today's economic sociology. His central idea—that entrepreneurship can be defined as the putting together of a new combination of already existing resources—can easily be given a sociological slant. And so can his idea that the main enemies of the entrepreneur are the people who cling to tradition and resist innovation. Schumpeter's work on entrepreneurship has still much to give and deserves a place in the emerging sociology of entrepreneurship (e.g., Thornton 1999; Swedberg 2000b).

Karl Polanyi

Like many of the early figures in economic sociology, Karl Polanyi (1886–1964) lacked a formal education in economics (e.g., Polanyi-Levitt and Mendell 1987; Polanyi-Levitt 1990). Trained in law, Polanyi later taught himself economics (mainly of the Austrian kind) as well as economic history and economic anthropology. Though he was interdisciplinary in his approach, his main specialty was economic history, with an emphasis on preindustrial economies and nineteenth-century England. Though the work of Polanyi has become quite popular among contemporary economic sociologists, large parts of it are still unknown and other parts have not yet been fully assimilated.

Polanyi's most famous work is *The Great Transformation* (1944), conceived and written during World War II (e.g., North 1977; Block 2001). Its main thesis is that a revolutionary attempt was made in nine-

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teenth-century England to introduce a totally new type of economy, in which everything was centered around the market. No outside authority, be it political or religious, should have any power in economic matters; everything was to be decided by the market ("the self-regulating market"). In the 1840s and 1850s a series of laws were introduced to turn this project into reality, and these transformed land and labor into common commodities to be bought and sold at will. Also, the value of money was taken away from the political authorities and handed over to the market. According to Polanyi, this way of proceeding could lead only to a catastrophe:

> Robbed of the protective covering of cultural institutions [through the operations of the market], human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighborhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed ([1944] 1957:73).

When the negative effects of the market reforms became obvious during the second half of the nineteenth century, Polanyi continues, countermeasures were set in ("the double movement"). These, however, only helped to unbalance society further; and developments such as fascism in the twentieth century were ultimately to be traced back to the ill-fated attempt in mid-nineteenth-century England to turn everything over to the market.

Polanyi casts some of his analysis in *The Great Transformation* in interest terms and argues that in all societies, before the nineteenth century, the general interests of groups and societies ("social interests") had been much more important than the money interest of the individual ("economic interest"). "An all too narrow conception of interest," Polanyi emphasizes, "must in effect lead to a warped vision of social and political history, and no purely monetary definition of interest can leave room for that vital need for social protection" ([1944] 1957:154).

The theoretical, as opposed to the historical, part of *The Great Transformation* is centered around Polanyi's critique of economic theory and his concepts of "embeddedness" and "principles of behavior" (later changed to "forms of integration"). The fullest elaboration of this part of Polanyi's work is, however, not to be found in this work but in *Trade and Market in the Early Empires* (1957), especially in Polanyi's essay "The Economy as Instituted Process." Polanyi criticizes economic theory for being essentially "formal"—for exclusively focusing on choice, the means-end relationship, and the alleged scarcity of things. There is also the "economistic fallacy," or the tendency in

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economics to equate the economy exclusively with the market ([1944] 1957:270). To the formal concept of economics Polanyi counterposes a "substantive" concept of economics, which is grounded in reality and not in logic. "The substantive meaning of *economic* derives from man's dependence for his living upon nature and his fellows" ([1957] 1971:243). While the notion of economic interest is directly linked to "the livelihood of man" in substantive economics, it is a purely artificial construction in formal economics (1977).

The most famous concept that is associated with Polanyi's work these days is "embeddedness," and it should therefore be pointed out that Polanyi used this concept in a different way than it is typically used today (cf. Barber 1995). According to the current use, an economic action is in principle always "embedded" in some form or another of social structure. According to Polanyi, on the other hand, economic actions become destructive when they are "disembedded," or not governed by social or noneconomic authorities. The real problem with capitalism is that instead of having society decide over the economy, it is the economy that decides over society: "*instead of the economic system being embedded in social relationships, these relationships were now embedded in the economic system*" ([1947] 1971:70; emphasis in original). To set things straight, Polanyi concludes, the economy has to be "reembedded" and political control over the economy reestablished.

Among Polanyi's most important concepts, in so far as economic sociology is concerned, are his so-called forms of integration. Polanyi's general argument is that rational self-interest is, among other things, far too unstable to constitute the foundation of society—the reason being that an economy must be able to provide people with material sustenance on a continuous basis. There exist three forms of integration or ways to stabilize the economy and provide it with the unity that it needs (see figure 1.3): *reciprocity*, which takes place within symmetrical groups such as families, kinship groups, and neighborhoods; *redistribution*, the allocation of goods from a center in the community, such as the state; and *exchange*, the distribution of goods via price-making markets ([1957] 1971). In each economy, Polanyi specifies, there is usually a mix of these three forms and their corresponding institutions: the family, the state, and the market (cf. Granovetter and Yakubovich 2000). Prices and trade may also differ, depending on which form of integration is involved.

Talcott Parsons

Talcott Parsons (1902–79) was educated as an economist in the institutionalist tradition and taught economics at Harvard University for

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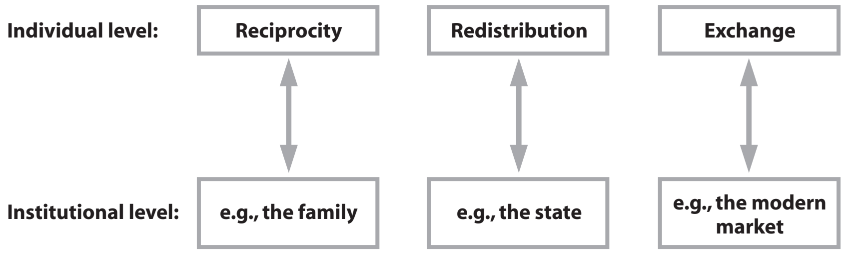

Figure 1.3. Different Ways of Organizing the Economy, according to Polanyi.
Note: The economy can only be organized in a few fundamental ways that all answer to specific institutions: '*reciprocity*', '*redistribution*', and '*exchange*'.
Source: Karl Polanyi, "The Economy as Instituted Process," pp. 243–69 in *Trade and Market in Early Empires*, edited by (Chicago: Karl Polanyi, Conrad Arensberg, and Harry Pearson Regnery, [1957] 1971).

several years before he switched to sociology in the 1930s. At this time he developed the notion that while economics deals with the means-end relationship of social action, sociology deals with its value aspect ("the analytical factor view"). In the 1950s Parsons recast his ideas on the relationship of economics to sociology in a work coauthored with Neil Smelser, *Economy and Society* (1956). This work constitutes Parsons's major contribution to economic sociology, even though he produced several other works that are relevant to this field (e.g., Camic 1987; Swedberg 1991b). It should also be noted that it was Parsons who translated much of Weber's work on economic topics into English; he also pioneered an important essay on Weber's theoretical economic sociology in *The Theory of Social and Economic Organization* (Parsons 1947).

The Structure of Social Action (1937) can be characterized as a forceful attack on utilitarian social thought, including the idea that interests represent an archimedean point from which to analyze society. Those who emphasize interests, Parsons notes, cannot handle the Hobbesian problem of order; and they typically try to get out of this dilemma by introducing the assumption that the interests of people do not conflict with one another. Parsons uses an expression by Elie Halévy to refer to this solution: the postulate of "the natural identity of interests" ([1937] 1968:96–97). What is not properly understood by the utilitarians, however, is that norms (embodying values) are absolutely necessary to integrate society and provide order. Interests are always part of society, but a social order cannot be built directly on them (405).

In *Economy and Society* (1956) Parsons and Smelser note that the two disciplines of economics and sociology are very far from each other,

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and that this is a situation that needs to be remedied. The authors suggest that sociology and economics should both be reconceptualized as parts of the general theory of social systems. The economy itself can be understood as a subsystem, which interacts with the other three subsystems (the polity, the integrative subsystem, and the cultural-motivational subsystem). The idea of the economy as a subsystem, which can be found in Parsons and Smelser's work, is reminiscent of Weber's notion of the economic sphere. While the latter, however, only refers to values, the economic subsystem also has an adaptive function as well as a distinct institutional structure. It may finally be mentioned that *Economy and Society* was not well received by the economists and that it also failed to ignite an interest for economic sociology among sociologists. Smelser's attempt during the next decade to get economic sociology going was similarly unsuccessful (Smelser 1963, 1965, 1976).

Summary

This chapter shows that economic sociology has a long tradition—from around 1900, in the more narrow sense of the word, and from much earlier, in a broader sense. Not only Marx, I argue, can be seen as an important predecessor to this type of analysis, but also Tocqueville. The importance of the concept of interest in economic sociology is illustrated by a discussion of the way in which the founders of sociology used this concept. A brief history of the concept of interest in social theory, from the 18th century and onwards, is also included.

Max Weber is without doubt the most important figure in early economic sociology. He was uniquely trained to launch a project such as economic sociology since he had worked both as an economist and as an economic historian before he turned to sociology. Of the founders of sociology, he was also the only one who tried to lay a systematic theoretical foundation for economic sociology. This is done in chapter 2 of *Economy and Society*. Like the works of the other classic writers in economic sociology, that of Weber is still much in need of study.

Economic sociology came to something of a standstill after 1920 and would not come back to life again until the mid-1980s. Still, some important work was done during the period after the classics—especially by Schumpeter, Parsons, and Polanyi. The current generation of economic sociologists has singled out Polanyi among these three thinkers. Polanyi coined the term "embeddedness" and also supplied some other useful conceptual tools, such as the three forms of integra-

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tion. The works of Schumpeter and Parsons have, on the other hand, more or less been ignored. While the value of Parsons's economic sociology can be debated, it is clear that Schumpeter's work is of much relevance to contemporary economic sociology. Of Schumpeter's many contributions, especially his theory of entrepreneurship and the analysis of the economy in *Capitalism, Socialism and Democracy* deserve to become part of contemporary economic sociology.

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