

## CHAPTER ONE

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## Economic Sociology

### PAST ACHIEVEMENTS AND PRESENT CHALLENGES

ECONOMIC SOCIOLOGY has experienced a remarkable rebirth. This trend has been chronicled and celebrated in a number of publications and reached its height with the appearance of two successive editions of a massive *Handbook*, edited by Neil J. Smelser and Richard Swedberg.<sup>1</sup> This feat, added to the influence achieved by Mark Granovetter's article on the social "embeddedness" of economic action, appeared to signal that the field was well underway.<sup>2</sup> Yet, in more recent years, there seems to have been a loss of direction. While purportedly sociological studies of economic activity have proliferated, basic texts in the field continue to chronicle its origins in the nineteenth century and to repeat notions that have become widely familiar by now. Above all, there is a disturbing return to "embeddedness" as if it were everything that, by way of theoretical contribution, contemporary economic sociology has to offer.

This impasse is not due, in my view, to the absence of an overarching theoretical framework, but to the lack of a precise understanding of the character and role that ideas at different levels of abstraction play in the organization of a given field. Overarching frameworks can do more harm than good, as sociology's experience with structural-functionalism and orthodox dialectical materialism can attest.<sup>3</sup> This is so because grand narratives tend to become self-referential, to approach reality deductively, and to force events into procrustean theoretical categories rather than learn from them. Mercifully, economic sociology has no such grand narrative, but it simultaneously lacks a clear understanding of its constitutive elements.

In my view, these can be summarized into three broad categories: (1) meta-theoretical principles, (2) explanatory mechanisms, and (3) strategic sites of inquiry. The first component establishes the cognitive "lens" through which a particular field sees the world. This lens is neither superior nor inferior to others, it is simply distinct in privileging certain areas of empirical reality as worth investigating and in orienting ways of going about this enterprise. The second category includes ideas that

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can be invoked, in a variety of settings, to understand, clarify, and even predict concrete events. They represent the tool kit that those embracing a particular disciplinary perspective use to go about their work. Finally, the third category comprises the chosen locations for investigation and theoretical expansions of a particular field. Such sites are certainly not selected at random, but reflect the guiding orientations, the lens through which the field sees the world.

In current treatises in economic sociology, the three categories are mixed together so that “embeddedness” (a meta-theoretical assumption) appears right next to “firms” (a site for investigation) and “self-fulfilling prophecies” (an explanatory mechanism). A perusal of the two editions of the *Handbook* reveals that after its introductory section, labeled “General Concerns,” it focuses mostly on sites of research such as firms, unions, the state, and the global economy.<sup>4</sup> The sites are very diverse, encompassing a wide variety of different topics and signaling that the field, at present, is anything but coherent. More disciplined is Richard Swedberg’s *Principles of Economic Sociology*, which, after making a plea for the concept of “interest” as one such “principle” and chronicling the history of the field, goes on to review a tighter selection of research sites, headed by firms and markets.<sup>5</sup>

Strategic sites are not explanatory mechanisms, but rather instances where the latter can be applied. Successful explanation cannot be accomplished, however, by the mere invocation of the meta-theoretical principles because the latter are too abstract to provide sufficient causal guidance. Affirming, for example, that market transactors behave in particular ways because of their “social embeddedness” can be readily accepted without advancing, in any way, our understanding of that specific market or those particular transactions. For that, we need more proximate explanatory mechanisms, assimilable to what Max Weber labeled in his time *ideal types*.

The purpose of this book is to pursue this line of argument by first considering the key underlying principles or assumptions that guide the field and then examining a series of midlevel explanatory concepts that can be applicable in a variety of concrete situations. Those selected trace back to previously published work, which may convey the impression of a mere collection of essays. I seek to overcome this impression by showing how each chosen concept relates to the general assumptions of the field and how, in turn, they are usable for explanation and prediction in specific domains. Together they represent part, though not all, of the tool kit available to economic sociologists today. While these explanatory

concepts and research sites reflect my personal interests, each is important enough to have spawned its own theoretical and research literatures, to be reviewed in the coming chapters.

### THE WEBERIAN IDEAL TYPE

Weber is commonly cited as one of the fathers of economic sociology because of his substantive contributions, including his analyses of the role of religion in the economy, of forms of economic organization, and of the rise of modern rational capitalism.<sup>6</sup> Almost never discussed is his methodology, despite the fact that it contains elements crucial for the advancement of the field. A first such contribution is his skeptical stance toward the quest for universal laws and toward grand narratives in general and his emphasis on the fact that social science knowledge is historically bound. Happily, economic sociology has not been distracted by the search for an all-encompassing framework, but any movement in that direction should be finished off by Weber's cautionary warning:

For the knowledge of historical phenomena in their concreteness, the most general laws, because they are most devoid of content are also the least valuable. The more comprehensive the validity—or scope—of a term, the more it leads us away from the richness of reality since, in order to include the common elements of the largest possible number of phenomena, it must necessarily be as abstract as possible and hence devoid of content.<sup>7</sup>

Second, Weber also gave us the ideal type as a mental construct based on past knowledge and designed to render meaningful specific areas of social reality. Grounded on past experience, ideal types describe how certain processes or events relate to one another and thus serve as explanations for specific historical phenomena: “[The ideal type] has the significance of a purely ideal limiting concept with which the real situation or action is compared and surveyed for the explication of certain of its significant components. Such concepts are constructs in terms of which we formulate relationships.”<sup>8</sup>

As this citation makes clear, ideal types are “rubbed” against empirical evidence to put order in actual experience, highlight its most salient features, and establish whether theoretical expectations—implicit in the concept—actually hold. Thus, the ideal type *bureaucracy*, one of the most famous associated with Weber, can be compared with the ways particular states or corporations behave in order to clarify similarities and

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differences in probity, meritocracy, and esprit de corps from the expectations implicit in the concept.

Similarly, the ideal type *informal economy*, the subject of one of the following chapters, can be applied to a wide range of economic phenomena—from street vending in third world cities to complex chains of subcontracting in the developed world—to make sense of commonalities of what would initially appear as a Babel of disparate experiences.<sup>9</sup> Rubbing the ideal type against reality also leads to modifications, refinements, and qualifications of the concept itself, which is how scientific knowledge actually advances.

Weber's methodology is relevant to economic sociology because the field's explanatory mechanisms and even research sites are ideal types; that is, concepts at a midlevel of abstraction applicable to concrete historical phenomena and modifiable by the latter. While Weber himself cites as examples of ideal types such things as "city economy" and "handicraft system," which are research sites, their description shows that there are implicit causal propositions in each.<sup>10</sup> By contrast, concepts such as "inner-worldly asceticism" are explanatory mechanisms that can be invoked in a variety of contexts to highlight certain aspects of reality as causally relevant.<sup>11</sup> For ideal types to play this role, they must be neither too specific and tied to a particular time and place nor so general that they cannot be compared properly to any concrete process or event.

Low-level notions are linked to particular findings in certain bound localities and, while contributing to knowledge in such places, they do not travel beyond them. Thus the finding that immigrants' health deteriorates the longer they have been living in the United States is valuable in and of itself, but says nothing about what happens elsewhere or why the phenomenon occurs in the first place. Similarly the finding that, when confronted with unemployment, British workers resort to "self-provisioning" rather than informal trade is useful, but cannot be applied to other national contexts or historical periods.<sup>12</sup>

At the opposite end of the spectrum, concepts like *functional equilibrium*, *societal differentiation*, and *social systems* are so broad as to lack any clear empirical referent. When rubbed against reality, the common result is that they are found to be applicable to each and all situations, without advancing our understanding of any. Thus the statement that social change "proceeds through a process of differentiation, followed by integration" can be readily accepted without telling us anything about how specific historical processes of change take place. At the height of such theorizing in the United States, Robert K. Merton was one of the

first to raise his voice against all-encompassing formulations. He proposed theories of the midrange as a more fruitful way to articulate ideas with empirical evidence.<sup>13</sup> In the context of his time, he contemporized with his grand theory mentors by defining midrange concepts as a necessary intermediate step for the formulation of broader systemic theories. With the wisdom of hindsight, we can confidently note that this is not the case. The midrange level of theoretical abstraction is the realm that useful ideal types inhabit, and they are not “preliminary” to anything. In my view, midrange ideal types represent the core of economic sociology. The following chapters will be organized accordingly.

#### PLAN FOR THE BOOK

Based on the preceding discussion, I plan to examine the meta-assumptions grounding economic sociology, some of its key explanatory mechanisms, and a few strategic research sites. As it happens, this tripartite classification also comes in threes: there are three general assumptions—socially oriented economic action, unexpected consequences of purposive action, and power. Selected explanatory mechanisms are also three: social capital, social classes, and social institutions. This will be followed by an analysis of three research sites: the informal economy, ethnic enclaves and middleman groups, and transnational communities. These sites have two characteristics in common. First, they are distinct from those most frequently discussed in the literature, such as firms and markets. Second, as ideal types, they also embody explanatory mechanisms, although less encompassing and at a lower level of abstraction than the first three. Selected explanatory mechanisms are not without their problems and these will be dealt with in the corresponding chapters. To anticipate: social capital has been intellectually “kidnapped” to play a role quite different from that contemplated by its original sociological creators; social class has been progressively abandoned as an explanatory tool in the wake of the general decline of Marxist political economy as an overarching perspective; by contrast, social institution has experienced a sudden rise of popularity, but its definition has become so vague and diverse as to threaten its heuristic value.

Finally, it may not be immediately obvious why the three cited meta-assumptions are so, that is, why they are held to be exhaustive of those grounding the field or why they are placed at a different level of abstraction than others mentioned. These questions will be addressed in the

following chapters. For the time being, all that is asked from the reader is his or her preliminary assent to two points: (a) no all-encompassing general theory is necessary to move economic sociology forward; (b) to do so, however, a clear distinction is required among the different concepts that populate the field, their respective functions, and their relative levels of abstraction.

Since the time of its founding in the texts of Weber, Joseph Schumpeter, Thorstein Veblen, and others, economic sociology has shown enormous promise, both on its own and as a corrective to the orthodox marginalist tradition. Somehow that promise has never been quite fulfilled as texts in the field return, time and again, to the founding notions, and as a growing number of empirical studies invoke them as mantras, but without cumulating into theoretical advancement. To move us forward, empirical evidence should coalesce around a discrete set of midrange concepts, refining them and teasing out their heuristic value. Concepts (ideal types) are what we know and readily remember from our training and research experience. It is on their basis that this field, like any other in social science, can advance. Otherwise, we will be reduced to forever invoking the founding principles. If the rosary of concepts discussed in the following pages makes this argument persuasive, the goal of the book will have been fulfilled.

#### EXPLANATION AND PREDICTION

Conventionally, the goals of science consist in the explanation and prediction of phenomena in different areas of the world. The development of a discrete set of concepts, as described previously, has the exact purpose of facilitating these goals in the sociological study of the economy. No one would contest the assertion that a central purpose of the field is to render comprehensible the complexity of phenomena, past and present. In other words, explaining and interpreting economic reality is a major function to be met with the aid of a clear theoretical framework.

More questionable is the predictive function. Can the meta-assumptions and the set of ideal types so far developed in economic sociology predict anything? Here opinions are divided. Some theorists like Randall Collins have taken the bold position that the future, including major historical events, is predictable with the guidance of the proper theoretical tools. Collins offers as an example his own prediction of the demise of the

Soviet Union based on geopolitical principles and detailed information of the course of events in that country.<sup>14</sup>

A closer look at this assertion renders it questionable. While some predictive successes, such as Collins, may occur, the use of a particular set of theoretical principles does not guarantee this outcome in every case. Thus, about the same time that Collins was formulating his argument, another author using the same geopolitical principles plus “detailed information” predicted the likely demise of the United States. So far, that dramatic outcome has not materialized.<sup>15</sup> Disparities such as these have prompted authors like Charles Tilly to take the position that predicting the future on the basis of general “laws” or theoretical principles is a waste of time.<sup>16</sup>

Tilly’s critique is compelling and reproduces, in all its essentials, Weber’s classic argument about the impossibility of constructing a social science on the basis of universal laws. But before fully embracing this argument, which would confine social scientists to the exclusive role of interpreters of what has already happened, we should consider two issues: first, what are the phenomena to be predicted; second, what tools can be used for this task. There are, at least, three possible types of phenomena to be predicted in economic sociology, as elsewhere in the discipline: trends, steady states, and events.<sup>17</sup>

Most of the debate on prediction revolves around the third type and, especially, the subcategory of major, cataclysmic, and history-revamping events. The Russian Revolution of 1917, as well as the demise of the Soviet Union in the 1980s, would be good examples. Predicting such events would be akin to predicting the next Great Depression or the rise of Japan as the next hegemonic power in the capitalist world system. There are good reasons to doubt that such feats are possible, as attested by several recent attempts.<sup>18</sup>

However, macrosocial events of this kind do not exhaust all that there is to reality. With reasonable expectations of success, it is possible to predict certain trends at different levels of abstraction—from local communities to the world economy. It is hence feasible to transform the causes of major economic depressions or the determinants of the demise of core powers, as identified in the literature, into *trends* affecting the present and future. The ultimate outcome, however, would remain uncertain.

Marxist political economy made a specialty of predicting the end of the capitalist system, or strategic parts of it, on the basis of key social and economic indicators that should inevitably lead to its implosion. In

*The Fiscal Crisis of the State*, for example, the political economist James O'Connor predicted the financial breakdown of the American state under the dual strains of its accumulation and legitimation functions for sustaining advanced capitalism. This argument (which bears a close resemblance to Collins's geopolitical principles) held true as a trend. However, as did other Marxist analysts of the period, O'Connor confused *trend* with *outcome*. The strains were there and actually increased; the predicted final crisis never materialized.<sup>19</sup> The concept of social class, currently in abeyance because of its failure to predict revolutionary explosions, can be quite useful, nonetheless, when confined to the less ambitious role of detecting long-term trends.

Since functionalism fell into disrepute, most sociologists have been loath to focus on steady states and the processes contributing to their stability. Social ecologists, whose training leads them to focus on institutional survival, represent a partial exception but, for the most part, contemporary macrosociologists tend to avoid the issue. Although less exciting than big revolutionary explosions and catastrophic economic collapses, the *continuity* over time of normative structures and of institutions such as markets and corporate firms offer fertile ground for sociological inquiry. They also permit the formulation of predictions with a reasonable degree of accuracy. Although stable structures are commonly taken for granted, the question of how they arise and what keeps them going provides at least as solid a basis for theoretical development as the analysis of social change.<sup>20</sup> The concept of institutions is particularly relevant in this regard.

Finally, events that take place in restricted spatiotemporal contexts are also amenable to prediction. In a number of sociological fields, sufficient knowledge has accumulated to make possible this kind of bounded prediction. Theoretical advancements in economic sociology, for example, allow us to advance fairly accurate predictions about the organizational forms adopted by new corporations, the social consequences of industrial downsizing, the behavior of consumers in impersonal versus "embedded" transactions, the rise of entrepreneurial ethnic minorities, and employment decisions concerning different types of ethnically identified job applicants. The concept of social capital, as originally defined by Pierre Bourdieu, is especially useful in this restricted predictive role.

The theoretical tools to accomplish these predictive tasks are at hand and do not involve universal laws. Precisely because the midrange concepts just cited are fashioned in confrontation with reality and are responsive to its variations, they can be used with a measure of success to anticipate

trends, steady states, and circumscribed events. While predicting the “big bang” and discovering the general laws behind it will continue to titillate the imagination and the ambition of scholars, progress in fulfilling the predictive function of sociology in general and economic sociology in particular will be achieved within those more restricted confines.