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Economic Sociology: Bringing Back Social Factors

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1. Introduction

The spectacular revival of economic sociology in the US in the 1980s and in Europe at the beginning of the 21st century will be regarded as part of a paradigm shift in social sciences. Whereas classical sociology almost always dealt with normatively defined situations and value-based actions in which individual decisions, interests, and other situational aspects disappear from view, neo-classical economic theory focused on the rational autonomous individual trying to maximize private utility in market structures and therefore neglected social institutions as an important aspect of economic life.

Because of this, New Institutionalism as well as New Economic Sociology claimed to improve sociological explanations and analyses of *main economic structures* by using wider sociological concepts and by focusing on social aspects in economic actions, especially social expectations. New Economic Sociology in particular focuses on social economic action and claims to show why and how personal interactions, networks, social norms and so on frame economic actions and therefore help to create market transactions as well as successful organizational behavior or entrepreneurship. In the 1960s and 1970s, Neil Smelser asked for, in a nod to Max Weber, an economic sociology which analyzes the causal relations between economic and social facts (Smelser, 1963). More precisely, Neil Smelser and Richard Swedberg define in their influential *Handbook of Economic Sociology* that *economic sociology* should be “the application of the frames of reference, variables, and explanatory models of sociology to that complex of activities which is concerned with the production, distribution, exchange, and consumption of scarce goods and services” (Smelser & Swedberg, 2005: 3).

Moreover, New Sociological Institutionalism tries to overcome the implications and imperfections of the sociological tradition by generally explaining institutions as a result of more or less rational individual action in social situations (Dimaggio, 1998; Maurer & Schmid, 2002). Therefore, the notion of uncertainty is widely used; only a few, more recent works reflect more precisely on social constellations like conflict, common interests, or divergent cultural patterns (Coleman, 1985; Elster, 1989; Nee, 2005; Maurer & Schmid, 2010). When economic sociology returned, many sociological concepts were, because of tradition, badly prepared for improving and systemizing analyses of the economic sphere by taking into account different interdependencies in economic life. Furthermore, these sociological theories are challenged by New Economic Institutionalism that has successfully started to

integrate 'social institutions' like hierarchies, trust, social capital, etc. into the economic approach (see Williamson, 1985; North, 1990). Whereas the two 'new-comers' in sociology – New Institutionalism and New Economic Sociology – are still missing an integrating theoretical frame that would help to build up explanations that link individual actors and social structure in order to explain main economic phenomena or economically relevant phenomena like religious communities, trade unions, arts, etc. Today, there is great need for a linkage between assumptions on the micro level and on the macro level in order to explain social factors as a result of individual actions in social contexts. Hence, it is necessary to widen our models of economics and to show when and why social institutions matter in economic life and how this reproduces the social world.

2. Theoretical foundations of economic sociology

Today, the most important task is to bring individuals together with social structure, particularly in economic fields. My point of view is that this can be done by using a sociological approach that provides arguments about why certain social factors become important for individual actions in economic fields. In this way, explanatory relevance of social facts in the economy can be shown and explanations and analyses of economic phenomena can hence be improved. For me, the classical sociological concept of social institutions in the sense of shared social expectations is such an instrument because it claims that on the one hand individual actions need and sometimes create institutional framing in order to achieve intended structural effects; therefore the question is, under which circumstances such institutions come into being (see paragraph two). On the other hand, it can be argued that there are not only intended but also unintended economic and social effects. This means the main task for economic sociology would be to explain to which extent the particular institutions generated in the modern capitalistic economy – especially means-end rationality, markets, and large firms – come into being as a result of social processes (see paragraph three). Furthermore, economic sociology deals a lot with the question of why and how social institutions like trust, tradition, family networks, etc. affect economic life by enabling and stabilizing economic actions and relations in markets and in firms. New Institutionalism, on the other side, is concerned with focusing social expectations generally and bridging social and economic institutions by explaining how social institutions affect the economy and how the economy is changing social institutions. Using the notion of *institutions* firstly allows focusing on the relationship between society and economy by showing how social institutions matter in the economy and secondly to take the relationship between economy and society into account by analyzing how main economic institutions and processes change or stabilize social action and institutions. In doing so, economic sociology can be linked to New Institutionalism, and social factors enter the economic stage. This means that our analyses of economic and social institutions are superior to those of standard economic theory and functionalistic sociology by showing when social institutions matter in the economy and when economic factors matter in society. Concerning this, standard economic theory can be seen as only a special case analysis of a general social issue.

2.1 Main challenges

There are three main challenges for economic sociology today. Firstly, economic sociology needs to explain economic structures or processes by taking into account social factors,

especially social institutions. This responds in two ways to New Economic Sociology outlined in the US in the 1980s that claims in contrary to economic theory that social relations (social capital, trust, norms), hierarchy, and networks are important for economic action. Secondly, economic sociology needs to show why particular institutions come into being in modern economy, not only as a result of direct rational invention, but also as a matter of social action. Therefore, it is helpful to start with the general assumption of uncertainty; but in order to provide more precise explanations and analyses of main economic institutions, it is also important to develop and use more realistic and problem-focused models of social action in economy. Instead, economic institutions have to be explained by the individual's need for (one-sided as well as mutual) social expectations. This helps us to ask why and when individuals try to establish institutions and what problems arise in doing so. Furthermore, this provides a criterion for the extent to which particular institutions help to frame individual actions as well as social relations in the economic field by supporting exchange, defining prices or markets, legitimating organizational structures, etc. Summarizing, economic sociology on the one hand should explain why and how particular economic institutions or institutional settings like markets, large firms, money, etc. come into being and are maintained by individuals in economic fields (North, 1977; Trigilia, 2002). On the other hand, sociological (institution) theories need to show how economic actions reproduce general social institutions like rationality, time, common knowledge, patterns of legitimation, organizational forms, etc. (Carruthers & Espeland, 1991; Dimaggio, 1994; Fligstein, 2005; Nee, 2005). Analyses of social as well as economic institutions in the economic field are more relevant to economic-sociology. Whereas analyses of how economic action influences social institutions like cultural symbols and rituals are more important to New Sociological Institutionalism. But both come together within an approach that tries to link individual actions and social structures by explaining and analyzing social institutions in the sense of social expectations that support social actions in economy.

Last but not least, to prevent the failures of both neo-classical economics and classical sociology and for adopting the claim of economic sociology to focus on social factors in economic life, to me, the most important aspect is to firstly look upon social situations with regard to the individuals, so we can see why particular social factors become relevant; and then with regard to the social side-effects that are – intendedly and unintendedly – produced. Economic sociology needs a theoretical framework or foundation that gives good methodological arguments for connecting individual actions and structure. The notion of social institutions in the broader sense of shared social expectations provides such a linkage. Today, multi-level explanations that have improved and become more common since the 1980s provide an elaborate methodological framework for bridging individual actions, social institutions, and structure. The general aim is to provide a theoretical-oriented way of bridging micro and macro theories and therefore connect both levels of analyses in all social sciences (Coleman, 1986; Alexander et al., 1987). Hence, I will argue that multi-level explanations are a useful method for economic sociology as well because it needs to be founded on an action theory that provides a connection between individuals and social structure by showing why certain social aspects become relevant for individuals in their social, political, and economic actions. The common issue is that the linkage is founded on the assumption of intentional individuals that scan their social world as an action frame. That means that social institutions as well as cultural beliefs or scarce material resources are relevant for economic action in general (Maurer & Schmid, 2010).

2.2 Max Weber's notion of "society and economy"

In his work, Weber puts economic action and economic institutions center-stage. To him: "(modern, A.M.) 'economic action' is any peaceful exercise of an actor's control over resources which is in its main impulse oriented toward economic ends" (Weber, 1978: 63).¹ According to Weber, economic action in modern economy is thus defined as means-end oriented action in order to produce, consume, or distribute scarce goods and services. In Weberian sociology, it is most important to show what specific forms of production, consumption, or distribution are generated by this kind of action in modern societies and, secondly, by which social-cultural background they are caused. Especially the overwhelming rationalization of individual actions and economic structure is given priority in those analyses. Weber's notion of the mutual relation of "economy and society" is that they are strongly interrelated. For example, different processes of rationalization work on the level of cultural ideas (see for example the rational system of Protestant ideas), individual behavior (especially a systematic way of life and work), and social and economic institutions (authority systems, markets, firms, money, bookkeeping, etc.) work together when the modern rational capitalism comes into being (Weber, 1946; Weber, 1978). According to Weber, widespread rational institutions in economy like hierarchical organizations, especially large firms as well as large markets for consumer goods or money (Weber, 1978: chapter 2; Weber, 2000), are the result of the entanglement of a cultural belief system (that of Protestant sects) and the institutionalization of certain action patterns (that of systematic working and living) and specific social structures (primarily a rational state and a rational public administration). The main thesis states that through institutionalization the individual level and the macro level become interlinked, and different processes of rationalization are enforced.

2.2.1 Economic action, institutions, and structures

In my opinion, economic sociology can learn a lot by critically assessing the notion of economic action and institutions outlined by Max Weber – whose rich work has not been fully explored yet (Swedberg, 2003a; Maurer, 2010). Weber is still important for economic sociology for two reasons: firstly, because his methodological premise is to start explaining social regularities from an *individual point of view* focusing on the *institutionalized social setting*; secondly, because of his well-known historical view, especially that on the overwhelming processes of *rationalization* in the modern western world in general and that of *rational economic actions, institutions, and structures* in particular. Weber focused on the *need for and existence of* institutions in the sense of socially shared expectations with regard to the individual's need for orientation in a complex social world. Connected with this, he especially highlighted their reflection on ends as well as on means-end relations. Weber assumed that mankind is able to act intentionally, but that real action is mostly a mixture of rational intentions as well as of traditional and emotional actions. But in order to provide explanations, it is best to start with the assumption of means-end oriented actions and reconstruct them in accordance to social evidence. Only if such an explanation fails, social scientists should assume value rationality, traditions, or affect as situational motivation; this is what Weber did in the "Protestant ethic" where he used the assumption of value-

¹ "Wirtschaftlich orientiert soll ein Handeln insoweit heißen, als es seinem gemeinten Sinn nach an der Fürsorge für einen Begehren an Nutzleistungen orientiert ist." (Weber, 1985: 31)

rationality and an ethically framed situation in order to explain the typical actions by members of Protestant sects. Therefore, Weber explained the overcoming of traditional economy by modern rational capitalism mainly as a result of value-oriented individual actions in a *specific institutional setting*.

Modern economic institutions and structural elements can therefore be regarded as much as a topic for sociologists as for economists because of their social foundations in specific religious ideas.

However, in his work, Max Weber primarily addresses the problem of social order explored as general need for social expectations when individuals act with regard to one another and try to realize certain intentions. As is known, Max Weber claimed to start sociological explanations by focusing on individuals and their reflected and rational intentions (Swedberg, 1998; Norkus, 2001). This is where the social context comes in – both as a restriction structure as well as an opportunity structure. Following Weber, the most important aspect of the social world is the existence of socially related individuals. That is why he asked how individuals are able to build up stable social relationships in a complex social world. Because of the complexity of the world and the various motives of individuals, social actions and social relationships need to be grounded in reasonable social expectations.

According to Weber, such social expectations get an objective chance only if they are framed by general rules – not only by interests or habits – that are acknowledged as legitimate by the individuals. In that case, there is a reasonable chance that everybody will orientate on them and can normally expect others to do the same.

General rules or a social order become legitimate because of three ideal-type beliefs. Firstly, legitimacy can occur due to a belief in the formal correctness of an order or of the process of defining it. Secondly, it can occur due to the belief in the sanctity of tradition. Thirdly, it can occur due to the belief in the extraordinary skills of the ruler (Weber, 1985: 124 ff). What is important to see is that Weber did not explain the objective chance with direct reference to individual interests, although it is assumed that a legitimate order responds to general interests. A very important point for Weber is that a legitimate end-oriented order, especially when guaranteed by bureaucratic staff, enables groups of individuals to act in a coordinated manner, and moreover, to build up stable organizations in social, political, and economic surroundings that allow an ongoing, rational coordination of actions.

The assumption of a collective principle of legitimacy implies that the ruled ones as much as the staff “normally” follow the order without reference to concrete individual interests or social interdependencies. In fact, this only allows us to interpret formal organizations like businesses as a formal institution providing coordination in every field and offering only positive results, that means they are seen free of negative or unintended by-products.

The well-known thesis of Max Weber that bureaucratic organizations like the modern business firm are the most rational form of coordination and therefore unavoidable in modern life is due to the assumption of a given collective validation. Ignoring organizations’ tendency of threatening individual interests, Weber also did not examine problems of functioning and maintaining hierarchical institutions either in social or economic fields.

2.2.2 The spirit of Protestant ethic: The cultural foundation of modern capitalism

Weber's religious studies of ascetic Protestantism can be seen as an adaptation of the general argument of an overall rationalization of ideas and institutions. In particular, *The Protestant Ethic and the Spirit of Capitalism* (Weber, 1958) can be interpreted as an institution analysis.

In *The Protestant Ethic and the Spirit of Capitalism* Weber concretely shows that some Protestant sects believe that they cannot be sure to be elected by God, so they follow the rational rules set by ascetic Protestantism in order to find signs of God's blessing in the real world. In other words, Weber explained the behavior of a specific group of actors in a specific historical situation by elaborating the normative power of the Protestant ethic.

While a group of people follows the systematic, rational, and world-oriented rules of Protestantism, typical patterns of behavior can be deduced. More precisely, Weber outlined that:

- a systematic way of life,
- systematic work behavior (calling),
- and especially a very good feeling by profit maximization,

created powerful social institutions that changed former traditional behavior in economic life.

Regarding Weber's argument within a framework of multi-level explanations, differentiating assumptions on the individual and the macro-level, he explains patterns of actions for a group of people with regard to individual intentions (both interests and values) that can be read in the mirror of socially defined principles. The underlying explanatory strategy firstly implies that, because of the institutionalized frame patterns of actions arise and gain structural effects and secondly unintended consequences due to social interdependencies as a matter of various kinds of social relationships are neglected.

Therefore, rational structures and elements of modern capitalism – big business firms, rational organizations, rational calculation, and the systematic profit-maximization – are explained as the result of the actions of Protestants or, more general, of collective ideas.

However, Weber also argued that once established and successful in everyday economic life, these institutions are self-stabilizing and have no more need of their former basis, the religious background.

Whereas the institutionalization of rationalized and economically relevant patterns of behavior is explained due to individual interests, their functioning and maintaining is not. It seems as though Weber described the functions and maintenance of institutions once established without any regard to individual interests and social interdependencies, for example reactions from non-Protestants.

2.2.3 Some critical remarks on Weber

Let me sum up what we have seen and what we are missing. First of all, it can be said that Weber focused on the *need for institutions* by regarding the individuals' intentional acting in a complex world and taking others into account. But the validity of social institutions is explained by given *principles of legitimacy* or a given *religious ethic*. In both cases, the

institutionalized social expectations are founded in collective ideas overlapping individual interests and other social constellations. We have to state that Weber's model of social or economic relations depends on an underlying framing of individual interests by collectively stated general rules. This is part of Weber's suggestion to work on the basis of a typology of action and the empirical evidence of motives. Concerning the Protestants, Weber argued that their main concern was to obtain "certainty of salvation", and the "Protestant ethic" was their means to gain it. But Weber has no general argument as to why individuals orientate themselves on normative rules, whether means-end oriented, according to tradition, or through affects.

Secondly, the reconstruction shows that he used a very simple argument for transforming individual actions via institutionalized action patterns into structural effects: He deduced the macro-effects directly from the institutionalized patterns without any regard to social interdependencies. Because almost all Protestants save money, work in a systematic way, and maximize their profits, large firms producing for markets as well as an overall rationalization come into being.

Last but not least, we can see that institutions only matter if they are founded by collective ideas and show what is right or wrong in everyday behavior. In this case, institutions provide orientation for individuals. In particular, institutions, which are founded by a legal order and guaranteed by officials, are regarded as essential for rational, modern economies because according to Weber, they are the basis of rationally coordinated actions. This includes the modern business firm as well as political parties or even the national state. Thus, it becomes clear that Weber is mainly interested in discussing how stable expectations are constructed and enforced generally.

2.3 Institutions in action-based, multi-level explanations

The missing links in Weber's argumentation can be defined more precisely within the framework of an action-based, multi-level model of explanation based upon an action theory. The claim is to connect assumptions on the individual level with those of the macro level in order to explain social phenomena with regard to both. Secondly, it is stated that the assumptions on both levels should be enriched in order to provide more realistic explanations. Thirdly, there is a strong effort to improve and integrate our knowledge or theories about social reality; therefore, one action theory is proposed to be used as the foundation in order to build up a set of situation models that help to strengthen social factors in sociological explanations. My suggestion is to build up situational models centered on problems of social actions that make social expectations advantageous in general; this means that the underlying general assumption states individual intentionality. Within this approach, the underlying social problem as well as therefore relevant individual capabilities can be highlighted, thus increasing the necessity as well as the difficulty of solving the problem by finding (the most) appropriate institutional setting(s). This sociological perspective then focuses on the difficulties of establishing a 'good' institutional system with regard to particular social problems that individuals have to solve when living together as well as on the side effects that come along with this. That means that specific institutions as well as complex institutional settings, like that of markets, firms, or modern western capitalism are to be regarded as the result of both structure and action with regard to a concrete historical context.

Institutions are to be explained as a result of intentional actions in specific social situations in order to create social expectations and therefore help to stabilize 'good' social relations or orders. In the next step, institutions can also be regarded as a social *situational factor* which frames individual actions and leads to particular – intended as well as unintended – structural effects like "the spirit of Capitalism", revolutionary movements, stratification of resources, etc. Therefore, we need a model that illustrates how institutions work. According to the arguments given above, it should be possible to answer the question of the construction, the stabilization, and the change of institutions by intentionally acting individuals.

1. It is mostly suggested to use an action theory, which assumes that all individuals act on the basis of intentions, and to combine this assumption with models of social situations. Such sociological situation models should predominantly focus on social interdependencies in order to point out how social factors become relevant in economy (see Weber, 1978, chapter 1). The main variable of the action theory should pick up relevant aspects of the situation and should provide an argument as to how a certain factor influences the actions of an individual (for example, by stating that individuals need orientation and therefore scan situations for helpful and relevant information like traditions, cultural symbols, pure information, etc.).
2. At the very core of the argument a description of the underlying social situation is to be found: e.g., a type of social interdependency, power relations, market structures, etc. Only with regard to a social situation, it is possible to say what concrete intentions are working, and moreover, what the possible actions are. For example, if one started with a situational description that focuses on 'bad governance' from the viewpoint of individuals trying to realize a "good life", it can generally be stated that there are three types of actions: a) to keep quiet (loyalty or resignation), b) to raise one's voice, c) to leave (exit) the system (see for example Hirschman, 1970; Lindenberg, 1989). So it is highly recommended to start with a simple action theory, for example, the assumptions that individuals act in regard to (private) interests and by being able to evaluate the results of actions and situations in response to their intentions, because then it is possible to explain, in which situations individuals act in which way. But this action theory should also be broadened by taking into account common interests or belief systems as intentions or by specifying the individual's capacity to interpret situations in the light of private or public interests as well as shared cultural belief systems (North, 1977; Schelling, 1978; Coleman, 1990; Lindenberg, 1994).
3. As mentioned above, a theory of rational action uses a general selection rule by stating that rational individuals choose the action providing the best or at least adequate result in accordance to social structure and the concrete intentions (for example consumer utility, value orientation, minimizing fear, etc.). Only this allows us to *explain* the typically chosen action in a particular social setting.
4. The great challenge is the third step, in which the explained individual actions need to be transformed into collective effects, such as market or organizational structures. If we use the notion of institutions, at this point, we are also able to state the validity or changing of particular institutions. Such transformations can be achieved on the basis of formal rules (selection rules, simulations), by pure aggregation (as it is done in Weber's Protestantism thesis), with response to institution theories, social mechanisms, etc. (for an overview, see Coleman, 1990; Maurer & Schmid, 2010, chapter 3).

The sociological perspective results from explaining institutions by reviewing social constellations (or more general, social situations) from an individual point of view as a problem of expectation. The guideline for building up institutional analyses is to make assumptions about how the individual figures out problematic constellations that make particular social institutions or institutional settings helpful.

By using the concept of institutionally differently defined situations combined with the same assumption on the micro level, it is also possible to explain which intended and unintended social structures will arise due to specific institutions and individuals. Subsequently, the main effort is to show how institutions work and thus reproduce social situations like social constellations, market structures, etc. Mainly, social situations that are defined by *complementary interests* should be taken into account by *economic sociology* because they provide typically good reasons for economic actions when exchange is possible (Weber, 1978, chapter 2). As New Economic Sociologists assumes, economic exchange mostly needs certain institutions, especially when markets do not work.² However, the perspective can be broadened by taking into account not only the exchange of private consumer goods, but also that of social or public goods because then not only markets but also hierarchies, cultural belief systems, or social networks come to the fore. Consequently, economic sociology needs to analyze not only markets but also networks, hierarchical organizations, or cultural beliefs as an institutional setting that may frame economic actions, but is mostly defined in social contexts. This means we need to look closer at the conditions that may help to run them. In order to do so, situational models should focus on cultural beliefs as well as on social relationships (authority, friendship, family, etc.) and explain how they are combined with problems of social action in the economic sphere.

The heuristic of an action-based explanation for economic sociology and institution theories lies in ascertaining social interdependencies that make specific mutual expectations advantageous for individuals. In response to general types of social interdependency or problems of social acting the need for social institutions is shown for social as well as economic life. In my opinion, the most exciting problem for economic sociology is the need for social expectations when producing and trading goods and services. We can generally call this the trust problem. In other words, in contrast to the assumption of neo-classical economics, it is assumed that voluntary transactions need credible commitments when markets fail. In contrast to the general, classical focus on 'complexity', I suggest giving precise arguments about when and why social expectations are useful and therefore helpful for individuals in economic life, and to explain the consequences they might have. In doing so, it can be shown that the general problem focused on by Weber can be described more precisely by looking at least at three types of social interdependencies focusing on interest constellations. This leads us to analyses that feature more realistic and precise theses about what kind of institution could help, what institution can be constructed given certain situational and individual aspects, and, last but not least, what kind of social effects may arise.

² Therefore, it is helpful to start with the assumption that individuals try to realize their intentions that are mostly defined by the need for consumer goods in the economic sphere, but can also be defined by the need for social reputation (Smith, 1950), or by a general "ideal" orientation on what needs are important and what means are therefore adequate (Weber, 1946, chapter 1; Weber, 1978).

This can be seen as a starting point for an integrated approach that focuses and systemizes social situations which, in the sense of social expectations, make institutions advantageous for individual actors, but also looks for their intended and unintended consequences.

3. Social institutions in modern economy

Therefore, I am arguing now on the basis of a theory of intentional actions that is more precise, in the sense that realistic theses can be formulated about the conditions as well as the functioning of main economic institutions in modern societies, when we do not start with the assumption of given or socially founded expectations on the macro level. Instead, I suggest starting with simple assumptions about individuals trying to act with regard to their own intentions in social fields and therefore dealing with the problem of social expectation. Hence, we consider the processes of establishing and maintaining institutions in economic fields by regarding individual intentions as well as capabilities on the one hand, and by taking specific social constellations into account on the other.

3.1 Why institutions matter

We can now argue that institutions matter in economic life when individuals need social expectations to solve specific problems like that of defining 'ends' or 'goods' in economy (that I am referring to as the problem of orientation), getting information about the situation that lies ahead, especially who are the exchange partners and what are the exchange rates (this may be called the problem of coordination), and lastly, the big questions as to whether there are any common interests and how to meet them, such as the wealth of a society, justice, social order, etc.

Within the framework of action-based institution theories we can use these three kinds of social problems, but also develop more precisely shaped models of social action in economy that has need for institutions in general. This also allows us to focus on the underlying problem in a more concise way by stating why and how particular aspects of the situation and of individual action become relevant. Hence, it is possible to define a wide range of social action problems that matter in the economic field by giving precise arguments about the underlying logic and the degree of the problem that has to be overcome in order to found social action and relations in the economic sphere.

If we start with the very simple assumption that individuals act in order to meet private interests, we can argue that with regard to the three logics of interdependency described above the general need for *orientation* is not that problematic, since every orientation is better than none. Because of this, simple common knowledge as well as cultural symbols or defined social standards or information by chance can help to act intentionally. In all of these cases, 'focal points' help by saying what action is to be expected. Furthermore, because of their positive effects, such patterns of orientation are stabilizing step by step and therefore create path-depending social solutions that are not problematic or further discussed. That is what Neo-Institutionalists have in mind when arguing that processes of institutionalization happen and create social expectations without anyone noticing.

If we start with complementary interests it is to argue that, in the easiest case, two or more actors only need to know what the other will do in order to act intentional. This case is described for example by Thomas Schelling as a pure coordination game of 'strangers' who

are to meet in New York but have not made arrangements as to where and when. Then simple common knowledge can help and can build up to institutions by used private or common knowledge; for example to meet at the most famous place in town and the usual time.

The challenge for economic sociology is to figure out situations that make social interaction or exchange useful for individuals, but cause the need for stable mutual institutions at the same time. Thus, by analyzing the structure of interests we can describe the problem and ask what sort of institution might be necessary and possible. If formal institutions guaranteed by hierarchies are to be explained, we can say that unintended by-products are to be expected caused by the conflicting interest structure between rulers and staff as well as between rulers and obedient.

But this is not the overall case when focusing on *coordination problems* – most important in modern economic life – because successful social coordination benefits from complementary interests and therefore needs only to restrict the individual's scope of action in order to gain the positive effects of specializing, labor division, or agency. Coordination is a general problem in modern societies and economies because of the socially guaranteed rights of individuals to act and the formally defined property rights (including the formal right to enter into a contract, e.g. a market or an employer-employee relationship). Ergo, we can consider the problems that come along with such social relations and look for adequate social institutions that help to stabilize them, causing intended as well as unintended social and economic effects. In this framework, the often mentioned general trust problem can now be considered more precisely either as a problem of one-spot exchange by strangers or as a long-term exchange within a group that shares social norms or as a long-term exchange within a conflict arena and therefore making opportunism and strategic action relevant. To shape typical coordination problems in the economic sphere, it is helpful to consider firstly situational aspects and add special individuals' skills (to strengthen coordination problems, it is helpful to reflect which capabilities would help but are missing, e.g. to have the right information, to have complete information, to have and reflect ends logically, and, most of all, to act rationally with regard to intentions or ends like consumer utility, profit, common interests, and so on). Coordination problems are essential in modern economic life because both market exchange as well as employer-employee relationships can be regarded as a general problem of coordination, but with a specific logic (see paragraph 3.2 and 3.3). Whereas market exchange is mostly driven by trust problems that result from incomplete information (about the others, e.g. either private consumers, firms, the state, or, above all, about the commodities), social relations within business firms are a kind of trust problem that goes along with employees acting on behalf of their employers and their employers' interests. It is not so much the exchange of goods and services that makes intra-firm relations problematic, but the wide range of conflict patterns like opportunism, agency problems, strategic action, etc. Therefore, it can be stated that such social institutions are advantageous that firstly solve the coordination problem and secondly help to frame the conflict structure. Privately-owned firms in modern economies can be viewed as an institutionalized answer to the problem of controlling and determining the actions of others. Business firms have to be explained by analyzing the incentives given in and by hierarchical structures.

In contrast to economic theory that focuses mainly on exchange and complementary interests, sociology and political theory normally focus on *common interests* and therefore coordinated collective behavior. The classic answer to this is given by Max Weber (see paragraph 2) who argued that a means-end and legally founded order creates an organization (“Verband”) that provides rational collective action in all fields. But Weber’s solution is based on the assumption of a given legitimacy (“Anerkennung”) and is lacking an explanation on how this can be constituted as well as on how collective action in economic fields can be organized by alternative mechanisms when legitimacy fails. Whereas sociologists take common interests seriously when discussing collective actions, they do not ask for the corresponding problems that might be caused by individual interests. This is because they argue like Weber or assume that common interests enforce collective actions themselves. One of the major insights of using a rational-choice theory is that common interests do not automatically lead to collective actions, but also need social institutions to be guaranteed. This means we need to ask when and why intentional actors are able to create social institutions that allow them to solve the various problems that go along with collective action, first of all the various kinds of free-riding, but also problems of defining ends (Offe & Wiesenthal, 1980; Wiesenthal, 1993). Because free-riding is a dominant strategy when common interests are enforced by others, such expectations need to be enforced either inside the group by social mechanisms or by establishing authority and control structures – all of which are also public goods. Economic sociology can use and broaden the concept of public goods to discuss why producer or consumer associations are so rarely to be found in modern economies or what social institutions are possible and necessary to establish and maintain such associations. An economically interesting variation of this general problem is discussed by Russell Hardin and Elinor Ostrom as ‘Tragedy of Commons’. Ostrom (1990) in particular showed that the economic use of scarce common goods like water or fish can be governed within small groups and informal trust-based rules and local knowledge.

3.2 The two main economic institutions from the sociological perspective

Institutions and their general functioning might be more important for New Institutionalism and sociological theory than for economic sociology. This general statement has now to be specified with the argument that economic sociology has to deal more with coordination problems and therefore with market institutions and enterprises or labor institutions, but needs also to take into account the economic effects of social standards, rules, norms, cultural knowledge, symbols, rituals, etc.

While economic sociology is more interested in the various forms and functions of the two main institutions in modern economies – markets and firms – it must not neglect the problems of collective action as part of modern economies (e.g. trade unions, consumer groups, pressure groups, European Union, WHO, etc.), nor the need for fundamental social institutions like concepts of rationality or time and how they are used in economic actions.

Whereas coordination problems referring to exchange can be solved by market institutions (market prices and competition) and hierarchies, and are stabilized by social institutions mainly when markets fail or hierarchies and control doesn’t work, cooperation problems referring to cooperative work normally need to be solved by hierarchies.

In the following, I am going to show how to deal with the two main institutions of modern economies in sociology with regard to new developments in social theory. The main point is

to consider the existence of these institutions on the basis of problems of orientation, coordination, and cooperation.

3.2.1 The large firm

From an institutional point of view there are three perspectives on the business firm described as a privately-owned organization producing for an anonymous market in order to make profit. The first question is: *Why* has that kind of organizational form spread so widely since the late 19th century? Secondly: *What kind of social actions and interdependencies* are typical for this social setting, causing what kind of social institutions? Thirdly: How can we describe the *relationship* between *modern society* and *(large) business firms* in terms of social action and social expectations?

a. *Why privately-owned and hierarchically organized (large) business firms*

The first question is well considered because of the inevitable decline of social communities (tribes, families, feudal tenures, cloisters, and guilds) as producers of scarce goods and services during the process of industrialization. Instead, centralized production in the privately-owned industry driven by pure profit-orientation increased and became the very core issue of all social sciences (Swedberg, 2003). Whereas economists and historians point out that the decline of social communities and the rise of privately-owned companies was mostly related to technical innovations, (Neo-)Marxists as well as New-Institutionalists focus on the 'transformation problem' of human labor that arises because of the two main structural elements: private property and profit-orientation. The problem is to transform the abilities of human labor into an outcome that benefits the few owners and therefore coordinates the working process and solves the agency problem by effective structures. This is the very starting point for discussing the possibility as well as the need for centralized control mechanisms by private owners within the firm as an important fact for the overall success of privately-owned firms. Furthermore it is argued that the profit-orientation drives the widening of coordination effects firstly by enlarging the business and secondly by finding more and more rational ways of coordinating a large number of skilled workers. Economists and historians showed that social coordination effects the process of establishing more complex organizational and managerial structures, as well as organizing the production on a large scale and scope (Chandler, 1962; Williamson, 1985; North, 1990).

b. *Social expectations within firms*

Therefore, the formal organizational structures as well as the formation of managerial structures gained a lot of attention during the 20th century. One of the most exciting aspects discussed within sociology – especially in the sociology of work – relates to the change of *control systems*. It is stated that direct and personal forms of control lost relevance and were substituted by more technical and bureaucratic forms of control (Edwards, 1979) and lastly by new forms of self-control (Burawoy, 1979; Piore & Sabel, 1984). With this reading, sociology competes with New Economic Institutionalism that offers a strong argument for the rise of various kinds of managerial and structural forms in the 1930s in the US and in the 1950s in Europe because of information overload on the top management, which generated a need for certain kinds of institutions or for organizational change. Managers as well as hierarchies within this framework are regarded as effective mechanisms of coordination established by the private owners.

In contrast, sociological institution theories in the tradition of Weber state that organizational and managerial structures are part of collective ideas and therefore need to be regarded as an expression of legitimacy and not so much as a mechanism to ensure coordination effects (Dimaggio & Powell, 1991).

Located somewhere in between, conflict theories argue that especially 'labor institutions' (working hours, trade unions, state policy, or international institution systems like the EU) came into being in order to modify the conflict between workers and business owners (shareholders as well as entrepreneurs) (see Fligstein, 2005). The existence of labor institutions in general as well as that of different kinds of labor institutions is interpreted as part of the ongoing process of framing conflicts by using social institutions in a way that keeps the process running.

Most social scientists analyze business firms as a social (action) system that comes into being when formally free actors sell their 'rights' to those that pay them. From the viewpoint of the former actors, the so-called agents, they need to bargain for their 'earnings' and to make sure that they are able to get their sold rights back if they want to or to voice when their rights are hurt. The latter actors, the principals, need expectations about the agents: their abilities, their motivations and their real actions. To enforce such expectations, additional guarantees are helpful – primarily hierarchical control, loan systems, and, sometimes, social norms (Coleman, 1990). Because of the interest structure, such institutions are not to be regarded as a convention, but need to be explained as a coordination system enforcing control and regulating conflicts. Institutions that are engaged and maintained by self-interested principles mostly have the unintended by-product to hire officials and set up hierarchical structures, which tend to meet their own authority interests at the cost of everyone by building up power monopolies, consuming resources, etc. Another very special adaptation of this situation is provided in the work of Oliver Williamson (1985). He discusses the problem that exchange relations often have costs because the underlying contracts cannot specify all details. Especially when asset specificity works, one partner has to invest specifically in the exchange relation, so social expectations can help to run exchange and therefore improve efficiency. Because of the explored control problem, that is an explicit form of a trust problem, formal and hierarchical institutions are needed but must be regarded as the source of further institutions. For example, managers in large companies who have the task of controlling the workers as well as the finances cause further control problems, but at a much higher level, because of their authority and power.

The hot topic within economic sociology is to show how this process is embedded in social constellations, so institutions are not only regarded in terms of coordination effects, but also in terms of underlying power relations as well as previously defined formal social rights and informal social ideas. While industrial sociology and sociology of work mainly focus on the conflict problem from a power perspective by overseeing the coordination problem, most organization and institution theories (as well as economics) focus on the primary coordination problem, missing the conflict structure and, most of all, the underlying power relations. The heuristic for economic sociology is to regard both processes: the coordination effects as well as the conflict structure that goes along with privately-owned firms and makes power, not effectiveness alone, relevant for analyzing internal structures and processes.

c. Social expectations concerning firms

The new argument within an institutional frame is to regard business firms as an actor within society. This means firms act not only as economic actors in markets, but also as social actors in social contexts. According to this, we can show that there are different constellations that make societies address social expectations to firms. Consequently, the general focus is to regard firms as part of economic expectations (mostly addressed within markets), formal expectations (mostly addressed by national states and increasingly by international regimes like the EU, WTO, etc.), and also of social expectations (special cultural ideas, norms, principles, etc.). To do so, I suggest not asking how social expectations work in general, but more precisely what constellations make them relevant and what is the logic of the problem behind them. Therefore, with regard to the concept developed above, it is helpful to differentiate the underlying problem and also to consider how it is reflected and defined within a society as a whole or by different groups, respectively. It is important to see that firms in modern society are mainly addressed by the social expectation to provide goods and services that are 'demanded', and this is considered to be best done within market competition and individually orientated on market prices that create profit.

In this sense, we can firstly state that social expectations become important when markets fail in motivating as well as in coordinating firms. Then social expectations like collective decisions, cultural ideas, etc., can define goods, consumers, and exchange relations. Secondly, social mechanisms like networks, social capital, hierarchy, formal rules, laws, norms, etc. can help to modify negative economic effects caused by private firms like pollution, antitrust, bubbles, etc. In general, firms are to be seen as societal actors that influence not only economy but also social relations and, most of all, social institutions. That requires to analyze how society can enforce such actions that go along with social ideas and norms, e.g. diversity management, corporate social responsibility, philanthropism, etc. As the most problematic and important case we can now consider the actions of firms that exploit social institutions when making use of them, such as temporal rhythms, social relations, social trust, democratic ideas, etc. Then the task will be to analyze how society or social groups can resist and try to reproduce their mechanisms of social integration, especially by means of social institutions that enable individuals to cooperate in order to criticize and sanction powerful economic actors such as trusts, investment banks, stock exchanges, etc.

3.2.2 Markets

Most classic economics discuss mankind's necessity to organize their survival by producing scarce goods and services (e.g. Adam Smith, Karl Marx, Max Weber, etc.). Sociology focuses not so much on technical but more on the social aspects of economic action and regards economy as socially organized. Therefore, various ways of organizing economy can be differentiated within the framework of institutionalism, what means that economy is to be described as a typical institutional setting – consisting of specific institutions with different functions and effects – with a specific relationship to society. One of the most famous typology states at least four major forms of society-economy relations: 1) the historic build-up on slavery and on ethics based on the 'good life', 2) the feudal system with a substantial production in private households and cloisters framed by overall feudal relations, 3) traditional capitalism founded on traditional habits and structures in guilds and trades, 4)

modern capitalism with private firms producing and selling in free markets in order to make profit. In the modern western capitalist society, economy works mostly on its own principles and by using information provided by free markets (especially prices).

a. Why markets

In the last decades, sociologists have learnt a lot about markets through ethnologists, anthropologists and historians.

Beginning with the famous work by Malinowski, we can state that mankind has always had to earn their living by producing and trading, but in pre-modern times had to do it within a social framework that guaranteed the survival for most at a very low level (Polanyi, 1996). Exchange involved not only material goods but also women, children, symbols, etc. and was strongly restricted by spatial, temporal, and social norms. Markets existed but were socially embedded and to a high degree culturally defined as shown in the descriptions of the “Kula Ring” by Malinowski, “Kaffirs” by Karl Polanyi, the “Bazaar Economy” by Clifford Geertz, or the “Agora in Athens” by Richard Swedberg (see for example Polanyi, 1996; Swedberg, 2003b).

As we know today, a social reason for exchange and for establishing markets was the social rule not to trade within one’s own tribe, community, or ethnicity (Weber, 1981). The very simple form of exchange needs neither markets nor money, but with growing specialization and division of labor, exchange relations were more and more ‘organized’ within markets and by means of payment. Karl Polanyi (1996) posits that markets became free from their social embeddedness when the labor force as well as most goods were traded and priced solely through markets.

With the process of broadening, large private-firms markets gained increasing importance by the mid-19th century. “A chain-reaction was started – what before was merely isolated markets was transmuted into a self-regulation system of markets ... The crucial step was this: labour and land were made into commodities, that is, they were treated as *if* produced for sale ... Accordingly, there was a market price for the use of labor power, called wages, and a market price for the use of land, called rent” (Polanyi, 1996: 147). Furthermore, markets as well as firms were no longer a part of society, and production as well as prices were no longer set by law, custom, ethics, or rulers, but by formally free market transactions based on contracts. “In this way an ‘economic sphere’ came into existence that was sharply delimited from other institutions in society. Since no human aggregation can survive without a functioning productive apparatus, its embodiment in a distinct and separate sphere had the effect of making the ‘rest’ of society dependent upon that sphere” (Polanyi, 1996: 148).³

What seems most important for economic sociology is what Adam Smith described as the very idea of market competition that is able to motivate individuals’ exchange and to coordinate exchange relations within a group of strangers – or at least no longer socially and morally integrated individuals – so that the available resources are used in the most efficient way (Smith, 1950). Market coordination – based on prize building and competition – is to be seen as “best practice” of organizing the production in modern society. In a similar way, Max Weber stated that customers and entrepreneurs increasingly lost their traditional habits and started to act rationally in the sense of orientating themselves on market prices and competition rather than on traditional habits. In doing so, markets are of great help for

³ For critical remarks see (North, 1977).

entrepreneurs because market prices allow them to calculate how high the costs for labor, land, and machines are and therefore, how much they need to produce and at what prices the commodities have to be sold in order to make profit. Instead of material rationality, means-end rationality in the sense of profit maximization has become more common in economy and society, and finds the necessary institutional setting within mass markets for goods as well as labor (Weber, 1978; Weber, 2000). In the last century, the major tendencies of the enlargement of markets or market relations within societies resulted in a decline of social-relation patterns and boosted the globalization of markets themselves, especially of the financial markets (for a very short introduction, see Carruthers, 1996; Swedberg, 2003b; Stearns & Mizruchi, 2005). Due to globalization, the production system as well as the societal wealth depend increasingly on financial markets⁴ as the crises in the 1930s and at the beginning of the 21st century illustrate (Mackenzie & Millo, 2003).

b. Social expectations within markets

The very core of New Economic Sociology are markets. This is due to the description of markets as an ideal model by neoclassical economics in order to deduce equilibrium prices in a formal and empirically testable way. Standard economic theory starts with the assumption of means-end rational actors trying to maximize their utility function (that is assumed to have certain properties: be stable, given and logically sorted) by orientating themselves strictly on market prices. The utility function results from the individuals' structure of preferences that is assumed to have certain properties: to be stable, to be given, and to be ranked in a logical order. Assuming perfect competition and complete information, market prices are to be interpreted as overall and objectively correct information signaling the underlying resource structure and demand structure, and make the market "best practice" of socially coordinating individuals' demand and supply within a given set.

New Institutionalism in economics as well as in sociology criticizes the ideal-typical model of 'homo oeconomicus' as well as that of a 'perfect-competition market' by arguing that both are 'unrealistic' and furthermore that in reality every market needs a certain spectrum of institutional framework, at the very least property rights and a national state. While New Institutionalism in economics almost always focuses on the problem of transaction costs going along with incomplete contracts and analyzes social institutions as control mechanisms in addition to, or as alternative to, markets.

To put it more general, economic sociology argues that all market exchange has to deal with the problem of uncertainty because of bounded individual rationality as well as social complexity that makes any kind of social expectation helpful by framing exchange relations and providing either simple orientation or ensuring coordination in the form of social exchange (Granovetter, 1985). According to the notion of social expectations developed above and in order to strengthen our understanding of social institutions in the economic sphere as well as that of markets, we have to give precise arguments as to why and to what degree exchange relations – and as a part of these market relations – make social expectations helpful and advantageous for individuals and society. According to this, we have to show why social institutions may be helpful, possible, and wanted by the

⁴ Therefore the "varieties of capitalism" or that of production systems are described as different relation patterns between firms and the financial system (Hall & Soskice, 2001) differing in their stability and efficiency.

individuals when acting in markets (see paragraph 2). The general heuristic is to set the main problems apart that go along with exchange and to dissect the underlying problems in markets, especially those that make social institutions advantageous in the modern economy. This can be done in a problem-oriented way by analyzing basic needs for orientation in the sense of what ends and means exist in a market, where markets emerge, who the buyers and sellers are in a market, etc. Sociology can consequently discuss why cultural symbols, social signals, or tacit knowledge help individuals to act socially in markets (Boltanski & Thévenot, 1983; Podolny, 2005; Geertz, 2011). For example, only if 'life', 'salvation', 'love', etc. are regarded as commodities can we choose to provide or to buy a life insurance (Zelizer, 2005), religious salvation and symbols (Wuthnow, 2005), or love, and in doing so create stable markets. This is to fill a blank in economic theory by explaining individual preferences as a result of social processes (Hirschman, 1977) as well as general orientations underlying individuals' actions as means-end rationality in the sense of utility maximization (Weber, 1946).

In the last three decades, New Economic Sociology has focused on the problem of how to guarantee exchange mostly within a group of strangers or at least morally no longer integrated people. All the questions of ensuring exchange relations can be discussed as forms of coordination problems. These problems have many solutions because there is an overall interest in success, but all of these solutions offer a particular benefit that motivates the emergence of social institutions in general, some of which being more likely to emerge, and provides opportunities for using power and strategy. While the problem of social expectations within exchange relations is widely dealt with in economic sociology, according to Mark Granovetter (1985) it is mostly discussed under the broad headline of uncertainty. But only if we differentiate degrees of difficulty, we can explain what institutions might help and come into being.

More interesting for sociology, although far more difficult, are questions concerning the definition of exchange rates (or more widely the question of stratification within a group) when there are no market prices (public goods, when markets are too small) or when market prices do not work (within families, friendship, democracy) or cannot work (because of imperfect competition like within the education system, health care, within an organization, etc.). Whenever market prices do not exist or should not work for social reasons in modern economy, social expectations must define explicitly the worth of goods and services. In other words, the most important aspect in exchange relations, namely what potential producers can expect and what consumers have to pay, must be defined either by law or by collective decisions or by normative ideas about justice or the like. It is obvious that every social definition of exchange rates normally causes conflicts; the greater the differences between the members of a society and the looser the 'social ties', the bigger the conflicts to be solved and the less is rationality of coordination (North, 1977). As Weber stated at the beginning of the 20th century, the central mechanism of modern economy is the market price because prices defined on large markets make individual rational orientation in the economic sphere (especially profit maximization) possible and lead to the highest level of rational production (Weber, 1978).

c. Social expectations on markets

As Polanyi and others stated, the modern kind of market economy was established in the mid-19th century, and the dominance of market mechanism in modern society was set. With

this, we mean that all incomes derive from market activities and almost all goods are prized commodities dealt with in markets. As a result, not only the supply and demand of consumer goods is organized by markets, but also labor force, money, religious and social goods (love, friendship, welfare, and trust) are increasingly prized and exchanged on markets. According to the underlying notion of institution, I have to concede that the overall functioning of the market mechanism in the modern western world has brought a new level of material wealth on the one hand (North, 1990; Goldstone, 2009), but also a dramatic change in or loss of social integration on the other (Hirschman, 1986). That means that today, modern societies are ruled to a very high degree by the market mechanism and therefore are contrasted by the need for social integration, bounding, and legitimation. From an institutional point of view we have to take into account that social institutions firstly help by defining and enforcing 'socially defined standards' that might correct market prices as well as market failures. Secondly, social values are also needed for the functioning of markets by defining and legitimation individual's preferences. Both could be seen during the recent financial crisis, making clear that markets can fail and sometimes need to be framed by social values as well as that there is no easy way to substitute market prices because then social exchange must be motivated and enforced by social mechanisms that normally provide the basis for power and conflict (Fligstein, 2005; Nee, 2005). Socially defined patterns of stratification normally need collective decisions, public legitimation as well as conflict regulations, all of which normally go along with a lack of efficiency.

3.3 Economy from a sociological point of view

Modern economy is normally thought of as the subject of economic theories, and sociology is considered to deal with social aspects. During the greater part of the 20th century, sociologists focused on social integration by norms and hierarchies, and economists on market coordination on the basis of the model of man as 'homo oeconomicus'. I wish to posit that within an action-based multi-level framework, we can discuss typical situations of social action – in a broad sense – which make institutions advantageous. A particular social situation is when rational actors pursue their own interests but take others into account. According to this, we can provide arguments about why individuals try to establish and maintain certain institutions, and we can also analyze the functioning of such institutions with regard to the underlying structure.

This can be done for typical social as well as economic or political institutions. To bring social factors back into the analysis of economy, I have suggested elaborating on typical social configurations that explain why privately-owned firms as well as large consumer markets and market prices have become so important in modern western economies. Furthermore, I have discussed what kinds of problems have to be solved when social action is taking place within large firms and markets. Concerning this, I have argued that in large firms institutions are wanted that allow for efficient coordination and also help to solve conflicts that go along with sharing the coordination effects and the central coordination structure. I have also illustrated that the spread of the market mechanism can be explained as a kind of framing exchange relations in large groups without a moral or normative basis. Firms as well as markets can now be explained as institutions established by socially interdependent actors who try to coordinate their actions in order to gain economic benefits yet also generate further problems and unintended by-products.

The integrative perspective of this approach is to elaborate upon variations of the named main situations and their underlying problems and to show when institutions are established to solve the problem and what social effects these institutions can have. Thus, the main thesis is that different kinds of social institutions matter in economic life because they provide mutual expectations in general and thereby solve various problems of social actions in particular. Mass product markets and privately-owned large firms are seen as a result of both the decline of small and morally integrated groups as well as that of formally free and rationally acting individuals that try to improve their lives. One major task for sociology in the future is to conduct analytical and empirical research on understanding the change of social structure brought about by the spread of the named economic institutions. In other words, we do not only need more knowledge about the rise of modern western economy, but also about the way economy is changing and thereby disabling or enabling social institutions.

4. Conclusion

One of the mostly discussed problems in sociology is that of bridging individuals and social structure and hence taking into account social, cultural, and economic aspects when explaining and analyzing society. Because of this the development of multi-level and mostly action-based explanations turned out to be one of the most important developments in sociology in general and in economic sociology in particular. In this regard, institution theories are very helpful because social institutions in a broad sense as socially constituted expectations can be explained as a result of individual actions and, in particular, social situations. Furthermore, the intended as well as the unintended by-products of such institutions can be analyzed according to the underlying problem structure as well as to individuals' capabilities and motivations. On this basis, I have argued that the rise of both business firms and mass markets can be explained as attempts of formally free individuals to improve their living conditions by the coordination through central hierarchies as well as decentralized market exchange, both, however, going along with the need for further institutions. While the large firm is predominantly characterized by its conflict structure that has to be framed by collective ideas or bargaining mechanisms, markets always need social definitions about goods, sellers, and buyers, and most of the time trust-building institutions that help running exchange relations by strangers when competition fails or when there is a lack of information. Due to the logic of the underlying problem, social institutions like cultural symbols, tacit knowledge, networks, or even – in more problematic cases – formal rules and hierarchies are helpful in stabilizing or substituting market mechanisms. In doing so, we can now not only state that institutions matter in economy, but we can more precisely formulate theses about when and why which sorts of institutions might be helpful and also possible. That means that the market can no longer be seen as the most effective coordination mechanism in economy, but only as one of many that works most efficiently when functioning by defining prices that state the resource structure.

Some additional work has to be done to widen the action theory so that interests as well as duties or customs be integrated, in the sense that we can give theoretical arguments about economic actions that are interest-based as well as governed by normatively or habitually founded institutions. Also, some more work has to be done to pay more attention to specific human abilities, especially rationality and creativity, which help to describe problem

constellations and to find social solutions. But as I have clearly mentioned above, the main sociological task is to explore social interdependencies or situations that cause social expectations and provide the opportunity structure to define and maintain them.

What I intended to do, was to look at economy from a general sociological view and to provide a clear thesis about the rise of the two main economic institutions in modern economy: the business firm and the mass market. By using the tools of social and institutional theory, I argued that under the integrated roof of institution theory we can and should explain as well as analyze economic institutions as a form of social-expectation building. But in order to overcome the restrictions of classics we have to analyze their functioning with regard to individuals and the underlying problem logic of typical social constellations. In doing so, we can now state that market mechanisms help to coordinate strangers or morally no longer integrated individuals, but only based on socially defined preferences, skills, and property rights. Furthermore, we can now argue that most of economic life needs at least additional social mechanisms in order to enforce market mechanisms and sometimes also to be a proper alternative. This is what economic sociology could do in the future, whereas sociology in general could concentrate more on the effects economic institutions have on social life by using and destroying traditional social institutions like temporal rhythms, family relations, religious rituals, traditional knowledge, networks, ethics, etc. This means also considering how firms and market actors can be socially included or at least bring social concerns into the economic scene.

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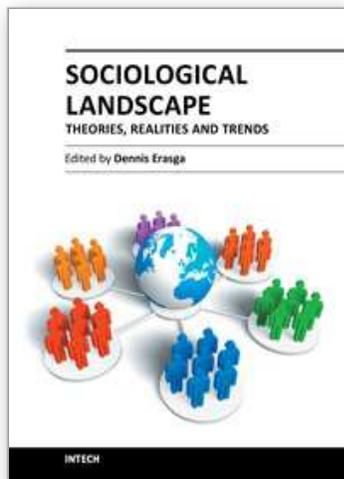
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