

ECONOMIC SOCIOLOGY

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Karl Marx, Max Weber, and Émile Durkheim sought to understand modernity by comparing precapitalist societies with capitalism. Marx explored the transition from feudalism to capitalism; Weber the capitalist impulse that arose with Protestantism; and Durkheim the rise of capitalism's division of labor. As capitalism was in its infancy, none were certain that modern industrial capitalism would take widely different forms, although Weber described a number of different forms—booty, political, imperialist, colonial, adventure, and fiscal capitalism (Weber 1978:164–67; see also Swedberg 1998:47). I review the growing field of economic sociology and, within it, studies that follow on the work of Marx, Weber, and Durkheim to explain the substantial variation found in economic behavior even in modern settings. While the classic studies of economic sociology sought to understand how emerging capitalism would be different from the system of feudalism, economic sociologists increasingly came to see that modern capitalism could take many different forms and sought to explain those forms by looking at different social processes. Economic sociologists have been looking at how power relations, institutions and social conventions, and social networks and roles interact at the societal level to create different sorts of economic systems; how these forces shape change within economic systems; and how they shape individual behavior.

Economic sociology has undergone a revival since the early 1980s. Sociologists have always studied aspects of economic behavior, but in the middle decades of the twentieth century, the social sciences adhered to the Parsonsian

division of the world into, roughly, economy, society, polity, and culture. Each area was the province of one discipline. Sociologists generally stuck to society and left economic behavior and institutions to economists. This divide began to crumble from both sides by the early 1980s; sociologists were again explaining economic behavior, and economists began to explain social behavior generally and not merely economic behavior.

Sociologists returned to the study of economic behavior because they were dissatisfied with the models economists were developing, finding that because they neglected social factors economists were unable to predict people's economic decisions. And sociologists found economists' models of limited use in that they did not predict the broad differences in economic behavior across nations. Sociologists saw economic behavior as just one more example of social behavior, shaped by the same forces as other sorts of social behavior, particularly power struggles, conventions, and social milieu. Economic behavior, they reasoned, isn't shaped by rational choice narrowly construed because what people view as rational is shaped by societal conventions, power, and networks. Because what it means to be rational depends on what society you are standing in, people are not able to simply behave rationally even when they seek to do so.

In this chapter, I review the theoretical foundations and recent insights of three broad schools in economic sociology that have flourished since the early 1980s: power, institutional, and network approaches. Then I turn to a survey of studies that illustrate the utility of these approaches.

HOW POWER, INSTITUTIONS, AND NETWORKS SHAPE ECONOMIC BEHAVIOR

Most economic sociologists proceed inductively, looking at how economic behavior varies over time or across countries and tracing that variation to something about social context. This is quite different from the approach of most neoclassical economists, who proceed deductively from the premise that individual self-interest explains economic behavior. Studies of investment among early Protestants, management of new enterprises in China's market-oriented sector, and business strategy among Argentine wine producers have produced myriad insights about the forces that shape economic behavior. But sociologists have usually found that one of three different social processes is at the heart of the matter, and these processes have been spelled out in power, institutional, and network theories.

Power

Power relations shape economic behavior, both directly, as when a powerful firm dictates to a weak supplier, and indirectly, as when a powerful industry group shapes regulation to its own advantage. The structural theory of power is the direct inheritor of Marx's ideas, even if not all of its practitioners would call themselves Marxists. They include Neil Fligstein (1990), Bill Roy (1997), Beth Mintz and Michael Schwartz (1985), Mark Mizruchi (1992), Michael Useem (1996), and Charles Perrow (1992, 2002). Their concern is most often with how powerful groups succeed in promoting management practices and public policies that are *in their interest* as being *in the common interest*. Marx described the capitalist state as a tool of the capitalist class, which justified its existence under the guise of political liberalism. His idea was that modern states serve one group while claiming to embody principles that benefit everyone. Structural theorists of power explore how power plays a role in determining the state policies, corporate strategies, and individual behaviors that we take to be transparently rational. When a particular group succeeds in promoting its favorite public policy or business strategy—in making that approach the new convention—that group can reinforce its own power or wealth without having to exercise constant coercion.

Institutions

Social institutions shape economic action by constraining options (regulatory institutions) and by establishing behavioral scripts (conventions). Weber (1978) argued that social conventions must be understood in terms of their subjective meaning to individuals because we behave in ways that are meaningful to us—that we understand (see Swedberg 1998). Sociological institutionalists understand economic behavior to be regular and predictable not

because it follows universal economic laws but because it follows meaningful institutionalized scripts (Meyer and Rowan 1977; DiMaggio and Powell 1983; Powell and DiMaggio 1991; Scott 1995). The meaning underlying modern behavior patterns is highly rationalized but, institutionalists argue, that doesn't make it any less meaningful than, say, behavior acknowledged to be spiritual in orientation. Meaning is not the antithesis of rationality. Economic customs carry meaning, and economic customs (and their meanings) often spread as rational fads. In the 1980s, management consultants offered downsizing (workforce reduction) as a solution to the problem of stagnant profits, and suddenly firms were doing it whether they needed to or not (Budros 1997). Downsizings are conventions, but since the time of Weber, institutionalists have also pointed to the ways in which wider social institutions—religious, educational, labor market—influence economic activity by regulating it and by defining social means and goals. For institutionalists, regulatory institutions are just another form of social convention, and they are held in place like management conventions by belief in their efficacy. They spread across provinces and nation-states because their proponents frame them as efficient.

Social Networks

It is a sort of modern truism that peer groups and role models provide concrete illustrations of how one should act in a given situation and enforce sanctions for misbehavior. Network theory builds on Simmel's and Durkheim's ideas about how the individual's position in a social milieu shapes both his behavior and his underlying identity. For Durkheim, social networks shape the actions of individuals not only negatively, by undermining antisocial behavior, but also positively, by establishing accepted behavior patterns. Mark Granovetter (1985) spells out the implications of the network approach in an article challenging transaction-cost economists' understanding of price gouging, in which gouging occurs when a supplier finds that he is the sole seller of a needed good. Granovetter argues that the norm against price gouging is enforced informally by members of an industry network; a seller who price gouges in times of scarcity will find that buyers turn elsewhere in times of plenty. Interpersonal networks thus enforce norms by sanctioning members who do not follow them. Development theorists find that societies with strong social networks have an advantage in development, in part because they can effectively carry out both positive and negative sanctioning.

As will be evident in the survey that follows, sociologists studying power, institutions, and networks are increasingly bringing their insights together to explain economic behavior. Economic sociology is thus moving from being a multiparadigmatic subfield to being a subfield with one broad way of understanding economic behavior encompassing three paradigmatic viewpoints. Economic practices—behavior patterns such as pricing

strategies and firm structures—emerge in networks of actors, via the institutionalization of scripts for how to behave in order to achieve particular ends. Powerful actors try to shape the scripts that are constructed and the rules of the game that become institutionalized in public policy. Many recent studies in the field synthesize ideas about institutions, power, and networks as we will see below.

POWER: ON THE SHOULDERS OF MARX

While Marx's prophesy that communism would triumph over capitalism died with the breakup of the Soviet Union, his method and core insights are very much alive in economic sociology. His main insight was that it is not merely abstract ideas that drive economic history but production processes and social relations. Like neoclassical economists, Marx argued that self-interest shapes economic behavior. But for Marx, self-interest leads people to try to shape the world to their advantage rather than to merely achieve the best price in every transaction. Economic sociologists focusing on labor-management relations, such as Burawoy (1979) and Biernacki (1995), often build on Marx's (1894) final work and magnum opus *Das Kapital*. But Marx's early writings on the transition from feudalism to capitalism have been more widely influential, including *The German Ideology* (1974), *The Eighteenth Brumaire of Louis Napoleon Bonaparte* ([1852] 1963), *The Communist Manifesto* (Marx and Engels [1872] 1972), and the wide-ranging notes for *Das Kapital*, *The Grundrisse* (1971).

In *The German Ideology*, Marx (1974) explores how changes in the system of production alter the relative power of the aristocracy and bourgeoisie. Under feudalism, a nascent class of craftspeople and manufacturers grew by actively selling their wares and building their production capacity. They challenged the traditional political rights and privileges of feudal lords, encouraging policies that favored industry, such as free labor and free elections. As they gained resources, they gained the capacity to shape the political and economic realm to their own advantage. Marx argued that the modern state imposed capitalist rules of economic behavior on a society in which the vast majority were not capitalists, under the rhetoric of political liberalism rather than under that of capitalist domination. Recent power theorists have taken from this the idea that modern states impose a particular set of rules, regulations, and institutions shaping economic life. Modern power theorists point to the role of conflict and power in creating these ground rules and in forming conventional business practices.

Power and Change in the Corporate Form in America

The major changes in corporate form and strategy were pushed by successive groups (textile mill owners, Wall Street financiers, finance-trained executives, and

institutional investors, respectively) that won power struggles with other groups. Each group institutionalized a new model of how to run a business that would soon become taken for granted. What is striking about the studies charting these changes is that they show that new business strategies spread under the rhetoric of efficiency but that each new model was merely one of several options that would likely have been about equally efficient. New policies clearly promoted the interests of their backers, but they did not so clearly improve on the status quo or best alternatives in the competition.

Charles Perrow (2002) traces the early rise of huge textile mills and gigantic railroads in America not to their greater efficiency (as compared with smaller enterprises) but to the fact that the Constitution gave state officials little power to regulate industry. The American state, designed as the antithesis of tyrannical European states, had meager administrative capacities and was deliberately opened to influence by the very groups it might have sought to control. This invited the powerful to reshape property rights—the laws that govern trade and corporate form—to their own taste. The American business elite changed property rights to the advantage of big corporations early in the nineteenth century. These legal advantages encouraged firms to use capital-intensive rather than labor-intensive methods, to build huge firms—even when labor-intensive methods would have been equally profitable.

If early capitalists shaped business strategy by shaping public policy, financiers pushed industry toward oligopoly in many industries at the dawn of the twentieth century. William Roy (1997), in *Socializing Capital: The Rise of the Large Industrial Corporation in America*, argues that the initial enforcement of antitrust in 1897 had an unanticipated effect on the balance of power between small and large firms. While antitrust was designed to prevent the concentration of economic power, by preventing collusion among firms, it gave big firms an advantage over small ones. Under antitrust, a group of small firms could not set prices together, but if they merged, the resulting large firm could set a single price. Roy argues that the advantage big firms had over small firms was not one of scale economies (Chandler 1977), for the merger wave at the dawn of the twentieth century swept across industries that could not benefit from scale economies as well as those that could. Instead, under antitrust, large firms demanded that smaller competitors sell out or face certain death in price wars. The ensuing mergers had less to do with manufacturing efficiency than with the fact that antitrust law put an end to the refuge of small firms, the cartel. Timothy Dowd and Frank Dobbin found that antitrust similarly stimulated a merger wave in railroading (Dobbin and Dowd 2000). When the Supreme Court enforced antitrust law in 1897, financiers, who typically held stock in many different railroads, decried price wars that would destroy the value of the small firms whose stock they held and heralded amicable mergers that would sustain the value of all the railroads they held. J. P. Morgan led financiers in threatening

to withhold future financing from firms that engaged in price wars.

The next huge shift in corporate strategy was diversification. What drove diversification? Neil Fligstein's (1990) *The Transformation of Corporate Control* traces competition between three different management factions for the leadership of American corporations: production, marketing, and finance managers. Fligstein shows instead that a power play by finance managers was at the heart of the matter. After the Celer-Kefauver amendments to antitrust in 1950, which made it more difficult for firms to expand into related businesses, finance experts sketched a new theory of the firm in which large firms should act like investors with diversified portfolios. Finance managers succeeded largely by force of argument—by convincing boards and investors that the diversified conglomerate was the way of the future and that they, finance managers, were uniquely qualified to pursue this model of growth. This group came to hold most CEO positions.

In the 1980s, the diversified conglomerate next gave way to the core-competence/shareholder value firm, and this of course challenged the efficiency arguments underlying portfolio theory. By 1990, big firms were buying others in the same industry to take advantage of their own core competence—of their core managerial abilities. As Davis, Diekmann, and Tinsley (1994) and Fligstein and Markowitz (1993) have argued, this new model arose because institutional investors and securities analysts found the diversified conglomerate difficult to place a value on and assigned higher values to single-industry firms. Firms had begun compensating executives based on stock performance, and this gave executives an incentive to cater to investors and analysts. The result was that the typical firm became less diversified. In this change, the power of key groups outside of the firm brought about a reversal in corporate strategy.

Marx (1974), Perrow (2002), Roy (1997), Fligstein and Markowitz (1993), and Davis et al. (1994) show that power shapes economic behavior by shaping prescriptions for how firms should behave. Powerful industries often shape their own regulations (Useem 1984), and it is often power struggles among management factions that determine what is defined as rational firm behavior. With each change, a powerful group managed to propose a new business strategy that gave it particular advantages in the economy with the argument that the new strategy would be good for the economy as a whole—that it would be efficient.

INSTITUTIONS: ON THE SHOULDERS OF WEBER

Weber's work inspired many studies of how social institutions, customs, and conventions determine economic behavior. In *The Protestant Ethic* (2002), in his various studies of the world religions ([1916] 1951, [1917] 1952, [1916] 1958, 1963), and in his opus on capitalism, *Economy and Society*

(1978), Weber tried to understand the actual customs of different societies, the thinking behind those customs, and the forces that lead to changes in customs. For Weber, it is the beliefs underlying customs that sustain them. Thus, he argued for the importance of understanding the meaning of an action to the actor. Rationality is not in the eye of the beholder, but in the mind of the actor. Weber argued for a broad view of the causes of economic behavior, arguing that economic behavior is influenced by social institutions in different realms—law and the state, the religious system, and the class system (Swedberg 1998).

National Economic Institutions

Weber traces modern ("rational") capitalist customs to the rise of a particular brand of early Protestantism. Weber saw in Protestantism a religious ideology that was compatible with capitalism and wondered why Protestantism, alone among the world religions, developed such an ideology. Early Calvinism taught predestination, or the idea that one's destiny in the afterlife was fixed at birth. While one could not earn a place in heaven, God gave everyone an earthly calling, and for the anxious, working hard and achieving success in business might at least signal divine approval. Calvin's God also demanded self-denial and asceticism. The idea of God's calling led Protestants to devote themselves to their work, and the idea of asceticism led them to save. Some argue that Catholicism promoted the same kinds of behavior (e.g., Novak 1993), and others argue that Protestantism's main effect was to promote bureaucratization of the state (Gorski 1993), but what is novel about Weber is not so much this particular argument as his vision of how economy and society were intertwined.

A decade after writing *The Protestant Ethic*, Weber began work on three thick volumes on the world religions and economies, *The Religion of China* ([1916] 1951), *The Religion of India* ([1916] 1958), and *Ancient Judaism* ([1917] 1952). In comparing the world's religions, Weber found that all were oriented to salvation but that they espoused very different ideas about how to achieve salvation (Swedberg 1998:138). In Protestantism, salvation was signaled (if not earned) through piety, asceticism, and devotion to one's calling. In Chinese Confucianism and Indian Hinduism alike, salvation was achieved by accepting one's given station and withdrawing from the world in prayer. These religious ethics fostered traditionalism and complacency rather than activism and entrepreneurialism. Ancient Judaism discouraged rational capitalism by favoring the life of religious scholarship over that of entrepreneurialism. What Weber demonstrated in these comparative studies, and what he argued in *Economy and Society*, was that economic customs were related to wider social institutions—the law and the state, religion, class—and that to understand economic conventions one must understand their links to these other institutions.

Richard Whitley's National Business Systems approach does for the varieties of contemporary capitalism what

Max Weber did for the world religions, sketching the logic underlying each form of capitalism to grasp the meaning of conventions for actors and linking economic conventions to the wider institutional milieu. Whitley (1992a, 1992b) finds that different national ideas about efficiency, as institutionalized in national business systems, correspond with different prescriptions for economic behavior. National economic and political institutions offer particular understandings of the relationships between state and industry, buyer and supplier, finance and industry. Institutions arise for reasons of history and happenstance, but over time ancillary customs and conventions emerge that hold them in place. Whitley (1992a) first set his sights on East Asian business systems. In Japan, the large corporation, or *kaisha*, dominates; the bank-dominated business group, the descendent of the prewar *zaibatsu*, brings together large diverse firms; and the state actively promotes exports and plans industry expansion. In Korea, the family-controlled conglomerate, or *chaebol*, dominates; symbiotic relationships among conglomerate members characterize interfirm relations; and the state actively promotes the rise and expansion of huge and stable empires. In Taiwan and Hong Kong, smaller Chinese family businesses dominate; interfirm relations are relatively unstructured, with a few medium-sized family business groups (*jituanqiye*); and the state leaves firms largely to their own devices. These different systems influence all kinds of economic behavior. For instance, they influence market entry in new export sectors, with new firms sponsored by business groups in Japan; new firms sponsored by families that own small businesses in Taiwan and Hong Kong; and new firms subsidized by the central state under the auspices of existing *chaebol* in Korea. What is rational under one system—starting up a company with family backing—would be folly in another. Whitley argues that the Asian Miracle is built on at least three different systems (see Johnson 1982; Cumings 1987; Westney 1987) and in subsequent studies has found just as much diversity in European business systems (Whitley 1992b; Whitley and Kristensen 1996).

Weber shows that across different societies, early religious institutions shaped economic practices. In *Forging Industrial Policy: The United States, Britain, and France in the Railway Age*, I show that across different societies, early political institutions shaped government industrial strategies and industry itself (Dobbin 1994). Modern industrial strategies were based on the logic of state-private sector relations. In the United States, the polity was organized around self-governing communities with a federal state in the role of umpire. Americans applied the same principles to railroading, and so the federal government became referee in a free market of self-governing enterprises. In France, the polity was organized through a strong central state designed to dominate intermediate groups that could threaten its sovereignty—theirs was a form of democracy antithetical to the American form. The French applied the principle of central coordination to railroading,

with the state becoming the ultimate planner and ruler of the system of private railroads. Britain's polity produced yet a third form of democracy, based on the idea of affording maximum autonomy to the citizen. When the British considered the railroads, they could not imagine that the state would regulate markets as the American state did or plan routes as the French state did. The British state left railroaders to their own devices, and to protect them from other railroads, they created cartels that would quell cut-throat competition. In each country, the structure of the polity shaped emergent regulatory institutions that would persist for a century or more. The economy thus came to reflect the polity, with the federal state as market umpire in the United States, the central government as the guardian and planner of key industries in France, and a state committed to maximizing individual initiative in Britain.

Agency and Economic Institutions

Many neo-Weberian institutional analyses neglect interest and agency in the formation of institutions, and that is certainly true of the studies reviewed above (Swedberg 2001). Others emphasize that the agency of individuals shapes, or is shaped by, economic institutions. Carruthers (1996) shows how early British stockholders used trading to further their political aims.

Gary Hamilton and Nicole Biggart argue that in the years after World War II, political leaders in Japan, South Korea, and Taiwan chose industrial strategies that built on traditional authority systems—but they emphasize that these leaders did *choose*, and could have chosen, other alternatives (Hamilton and Biggart 1988; Orrù, Biggart, and Hamilton 1991). Postwar politicians pursued strategies of legitimation that built on certain aspects of traditional authority structures. Postwar state-industry relations arose by design, but history provided the alternatives from which designers chose. Japan has powerful intermarket industry groups under a state that helps them plan and coordinate. After the American occupying regime dissolved the prewar *zaibatsu*, politicians built directly on the Tokugawa and Meiji authority system, in which the *shogun* or emperor was “above politics” and provided a weak center surrounded by strong but loyal independent powers (Hamilton and Biggart 1988:81). The postwar Taiwanese and South Korean states built on two different legitimating aspects of the Confucian political system. When Korea was embroiled in a civil war, the state directed industrial growth and presidential cronies became leaders of huge empires. The Rhee and Park regimes drew on the imagery of the strong, centralized Confucian state, with weak intermediate groups. The result was large family-dominated business groups beholden to the state. In Taiwan, Chiang Kai-shek modeled the state on the late imperial Confucian state's principle of fair treatment of the population. The postwar Taiwanese state allowed private parties to pursue their own projects. The resulting system mirrored late imperial China, with small family-run firms that had direct

contacts with suppliers and buyers. In each case, politicians who were determined to build new economic institutions that would have some legitimacy in terms of tradition deliberately employed aspects of traditional authority structures that suited their own goals. Old political institutions shaped new economic institutions, but only through the agency of calculating politicians.

In another approach to unpacking agency, Mauro Guillén's (2001) *The Limits of Convergence* explores the very different firm and industry strategies found in the emerging economies of Argentina, South Korea, and Spain. Guillén finds politicians, entrepreneurs, and managers relishing and building on their industrial idiosyncracies to distinguish themselves and to develop unique market niches. Across industries—wine making, banking, automobiles—broad public policy strategies have advantaged different sorts of industry structures and owners. South Korea's ardently nationalistic and centralized growth policies have favored huge integrated business groups over multinationals and smaller firms. Spain's pragmatic and flexible approach to regulation has resulted in a large presence of multinationals, a wide range of smaller domestic firms, and huge domestic firms in traditionally oligopolistic sectors. Argentina's populist policy orientation has discouraged foreign multinational penetration in some sectors but has promoted business groups that can provide stability and the economic basis for wider competition. Once established, a particular system becomes self-reinforcing as individuals develop economic strategies that build up its strengths.

Edgar Kiser and Joachim Schneider (1995) take a very different tack on agency that builds on rational choice theory. Weber argued that the early Prussian state was particularly efficient in collecting taxes because it was so bureaucratic. Kiser and Schneider show that the Prussian state was an efficient tax collector even before it became bureaucratic, and they use agency theory to show that it was efficient because it diverged from the bureaucratic ideal in ways that were particularly effective given the situation. Agency theory suggests that rulers seek to maximize tax revenues, their agents (tax collectors) seek to maximize their own take from taxes collected, and tax payers seek to minimize payments. Prussia developed a system that aligned interests to maximize the take of the ruler by, for instance, establishing long-term conditional contracts for tax farming that could minimize the cost of rent collection. Kiser and Schneider are part of a small group of economic sociologists who apply rational choice principles from agency theory.

Bruce Carruthers's (1996) analysis of early British stock trading exemplifies a related tradition in historical economic sociology, of showing that politics, and not narrow self-interest alone, drive economic behavior. Weber had argued that political institutions often shape economic behavior. Carruthers (1996) finds that stock trades were driven by politics as well as by price. *City of Capital: Politics and Markets in the English Financial Revolution*

questions a central tenet of price theory in economics, namely, that sellers choose the buyer offering the highest price. There were strong political battle lines in place in the early 1700s, and large companies exercised significant influence over political decision making. Who controlled the East India Trading Company was of some importance, and major stockholders were aware of this. In consequence, Carruthers finds that stockholders with clear political leanings were significantly more likely to sell to members of their own political party even though this typically meant that they were constraining competition for the shares they had to sell. Politics shaped economic behavior even in the first instantiation of the modern stock market.

Change in National Economic Institutions

The institutional studies reviewed up to this point echo two of Weber's points: Economic institutions follow logics that are meaningful to the participants who enact them, and economic institutions are shaped by surrounding institutions, particularly political institutions.

In *Economic Ideology and Japanese Industrial Policy* (1997) and in *Japan's Economic Dilemma* (2001), Bai Gao asks how Japan's unique industrial strategy emerged and then evolved after 1930. Japan pursued strategic planning of the economy, the restraint of competition through the governance of markets, and the suppression of short-term profit orientation in favor of long-term orientation. The approach was influenced by economic thought from Europe: Marx's ideas about the downside of unbridled competition, Schumpeter's ideas about innovation, and Keynes's ideas about state management of economic cycles. Japanese policymakers and capitalists who favored economic stability and industry self-governance (as opposed to cut-throat competition) used these ideas to formulate Japan's unique industrial policy stance. In *Japan's Economic Dilemma*, Gao (2001) traces the consequences of this system in the 1990s. Industry self-governance had worked well when the economy was booming, but in an economic downturn firms were free to engage in cut-throat competition and to make ill-conceived investments to counter declining profits. If *Economic Ideology* supports the Weberian notion that ideas can shape economic institutions, *Japan's Economic Dilemma* supports the Weberian notion that institutions become resistant to change. Japan found it hard to change its industrial policy midstream, even when the old policy had clearly gone awry.

Whereas Gao highlights continuity in the Japanese industrial order, John Campbell, Rogers Hollingsworth, and Leon Lindberg's (1991) *Governance of the American Economy* shows the diversity of industry governance structures found in the United States and develops a Weberian approach to explaining change in governance. In studies of eight industries, contributors identify a series of different industry configurations—markets, mergers, monitoring systems, obligational networks, promotional networks, and

associations. Historical change in industry governance begins with an external shock that leads different groups to vie to define a new structure. Power is key at critical moments of change. Campbell et al. challenge the prevailing view from transaction cost economics (Williamson 1985), which suggests that firms change governance forms when it is efficient to do so. Poor profitability may stimulate a search for new governance mechanisms, but many other kinds of shocks can stimulate change as well, and power rather than efficiency typically shapes the new equilibrium. The theory that Campbell and colleagues (1991) articulate is, then, in keeping with the theories of corporate strategy reviewed above in the section on power.

National Management Institutions

Reinhard Bendix's (1956) sweeping *Work and Authority in Industry: Ideologies of Management in the Course of Industrialization* traces the roots of management practice and ideology in four settings that differed on two dimensions: early versus mature industry and independent versus state-subordinated management. His two-by-two table included early English industry (independent management), early Tsarist Russian industry (state-subordinated management), mature American industry (independent management), and mature East German industry (state-subordinated management).

Successful management practices emerged where industry was autonomous, not where it was merely mature. It was in the two settings where management was autonomous, mature America and early Britain, rather than in the two where management was mature, America and East Germany, that managers developed ideologies that co-opted workers by suggesting to them that they too could benefit from social mobility, as current managers had. In Tsarist Russia and Communist East Germany, where managers were not autonomous, they did not succeed in countering the idea that managers' positions were undeserved and that management was a function of state oppression. In all four settings, the legacy of old ideas about class relations, and the reality of present class-state relations, shaped management patterns. For instance, in early England, the aristocracy's power vis-à-vis the state and their antipathy toward industry meant that the state left capitalist enterprises alone. In Tsarist Russia, by contrast, the state fostered early entrepreneurial activities and held early capitalists in its grasp, just as it held agricultural aristocrats in its grasp. In the wake of the collapse of Communism, an important punch line is that where the state subordinates entrepreneurs and industry to rule workers directly, the chances for the development of a successful managerial ideology are weak. Like Weber, Bendix was interested in the articulation between ideas and economic practices. He found that broadly similar economic practices could attain legitimacy in one setting, but not in another, largely on the basis of how well the attendant ideology of management meshed with the prevailing view of social relations.

Wolfgang Streeck's (1992) recent comparative studies of industrial relations systems build on Weber's insight that economic conventions are embedded in a broad set of societal institutions. *Social Institutions and Economic Performance* compares industrial relations systems across countries and links those systems to success in the global economy. For Streeck, history has produced different sorts of institutional configurations—labor markets, public employment policies, educational institutions—in each country, and these institutional configurations shape the industrial relations system. These industrial relations systems have different advantages. Nations with strong institutions (Germany and Japan) can make choices about how industry and training will be configured, and those choices can give them a comparative advantage over more marketized nations (Britain and the United States) where decisions are left to individuals. Germany's strong labor unions and rich educational system have allowed it to choose to make high value-added products that require skilled employees. Britain and the United States simply do not have the institutional capacity to make the same decision. The German and Japanese cases suggest that competitiveness in the modern economy depends on social institutions that permit countries to pursue collective goals through their industrial relations systems, educational systems, and corporations.

Geert Hofstede (1980) has taken the Weberian task of characterizing the work orientation of individuals to its logical conclusion, developing a scheme for understanding values in 40 different countries. His study is based on a survey of employees of a single multinational corporation with offices around the world. In describing authority relations and work values across countries, he identifies four dimensions: power distance (acceptable degree of supervisory control), uncertainty avoidance (degree to which people avoid the unknown to manage stress), individualism (importance of the individual vs. the group), and masculinity (relative importance of earning and achievement vs. cooperation and atmosphere). Hofstede correlates cultural types with societal institutions, arguing that the psyche is shaped by those institutions. One implication is that rational action takes very different forms across contexts, depending on whether close supervision is seen as improper, whether uncertainty elicits stress, whether individuals are valued over and above the group, and whether achievement is valued over cooperation. Hofstede thus fleshes out dimensions of the work ethic that Weber describes in *The Protestant Ethic*, and like Weber, he identifies societal institutions as the ultimate cause of differences.

Since the postwar Japanese Miracle caught the attention of economic sociologists, many have sought to bring Weber's comparisons of East and West up to date, to understand the characteristics of Japanese society and workplace that produced unparalleled growth rates after World War II. William Ouchi (1981) brought the case of Japanese management practices to a wide audience,

showing that the same practices that worked well in Japan could have positive effects on American firms. But Ronald Dore's (1973) *British Factory-Japanese Factory* pioneered factory comparisons in the two hemispheres, showing dramatic differences between Britain's market-oriented management system and Japan's welfare corporatism. In Britain, Dore found high labor mobility between firms, wages set by the external market, weak employee loyalty, paltry fringe benefits, and poor integration of unions. In Japan, he found low external labor mobility but an elaborate internal labor market with extensive training, wages set under the internal career system, high employee loyalty, elaborate fringe benefits, and enterprise unions that play an integral role in the workplace. Dore rejected the idea that culture explains these differences, tracing them instead to the timing of industrialization and to the conditions under which industrialization occurred. Japan's industrial form was forged in the postwar period, with the most advanced management thinking available at the time—ideas about worker involvement and long-term incentives to orient employee goals to firm goals. Britain's factory conditions were forged in a much earlier era, before modern ideas about employee motivation were developed and before the idea that union-management collaboration could be effective was popular. Dore's (2000) recent work suggests that countries have converged little.

Weber suggested that the spirit of capitalism was fueled by Calvinism. One lesson of Dore's work is that work ethic is also shaped by concrete workplace conventions. James Lincoln and Arne Kalleberg's (1985) study of some 8,000 workers in the United States and Japan suggests that work practices are important. While corporatist practices are more common in Japan, they increase worker commitment in both countries. The Japanese wage system presumes the absence of an external labor market—wages are shaped by tenure in the firm's career system. In the United States, the wage system presumes competition across firms, and thus wages reflect job characteristics, position in the hierarchy, and union representation in the United States (Lincoln and Kalleberg 1990). The received wisdom about differences between Japan and the United States was that they were cultural—that both worker commitment and employer commitment (to the worker) were part of a broader cultural system. Lincoln and Kalleberg's (1985) findings show that work practices themselves shape commitment.

The Diffusion of Management Institutions

While Weber was most interested in how customs differ among societies, recent works in economic sociology have focused on the factors that facilitate diffusion across organizations or across societies (Meyer and Rowan 1977; Powell and DiMaggio 1991). Mauro Guillén's (1994) *Models of Management: Work, Authority, and Organization in a Comparative Perspective* charts the spread of three important management paradigms among

the United States, Britain, West Germany, and Spain. Guillén stands on Bendix's and Weber's shoulders, exploring the social structural and ideological factors that influence the spread of three management paradigms: scientific management, the human relations school, and structural analysis. Religion plays an interesting role. In Spain, the Catholic Church supported the human relations school for its humane treatment of workers. In Germany, Protestants supported the scientific management movements for its emphasis of individualism and self-reliance. New practices do not diffuse universally; rather, they diffuse where existing social institutions are compatible with them and where systems have the capacity to effect change. This finding supports Weber's notion that societal institutions reinforce one another when they share an "elective affinity."

Marie-Laure Djelic's (1998) *Exporting the American Model: The Postwar Transformation of European Business* explores why France and Germany succeeded in importing American-style capitalism after World War II and why Italy failed. What mattered most was the character of institutions, both international institutions and national political institutions. France and Germany adopted the corporate structure (rather than independent ownership), the multidivisional form (rather than the simple unitary form), and enforced price competition (rather than cartels). Support from international institutions, in the form of the Marshall Plan, from the local political system, and from the business community mattered. In the case of Italy, industry resistance to change, the emphasis of Marshall Plan administrators on infrastructure over industry, and the disarticulation of the recovery plan worked against the American model.

Weberian studies of economic institutions share a focus on the meanings of social conventions to actors and on the articulation of different social institutions. Economic conventions are only replicated to the extent that those who enact them understand them; so understanding is key to the persistence of conventions. Economic conventions are forged, and enacted, in social networks, and it is to networks I now turn.

NETWORKS AND ROLES: ON THE SHOULDERS OF DURKHEIM

Economic behavior is fundamentally role-oriented in the view of most economic sociologists. Émile Durkheim explored how social networks and social roles varied across different societies, and much of the new work in economic sociology builds on his insights. Durkheim tried to understand the emergence of industrial capitalism through the concrete social networks that gave rise to an increasing division of labor. For Durkheim, social networks gave individuals the roles and scripts they followed in economic life. Interpersonal networks varied dramatically among the societies that Durkheim studied, from the totemic, tribal societies of the South Pacific to the complex

industrial societies of early-twentieth-century Europe. The division of labor, where the tasks of sustaining life were divided up, was what set modern societies apart. Durkheim's (1933) *The Division of Labor in Society*, explores how social attachment was restructured with industrialization, as individuals developed primary attachments to their occupational or professional groups rather than simply to their local communities. In Durkheim's view, economic behavior was shaped by social role, and in modern societies role identity was formed increasingly by occupation. People identify with those in their occupations, behaving according to occupational scripts and norms. One implication is that executives, physicians, accountants, and janitors follow economic customs rather than making rational calculations about how to behave in every situation they face. Occupational conventions may be based on rational ideas, but day-to-day behavior is guided by tradition rather than by active rational choice.

Changes in Networks and Roles

Durkheim's (1933) central question in *The Division of Labor* was in a sense a question about change, because he was interested in the simple early social structures of mechanical solidarity that were replaced by the complex social structures of organic solidarity. Since Durkheim's time, sociologists have focused on particular roles and network positions. Viviana Zelizer (1987) explores how particular roles change, showing that a network of social reformers altered the role of children under capitalism, redefining rationalized roles and changing behavior. With the rise of paid labor under early industrial capitalism, the labor of children was bought and sold just like the labor of adults. In realms ranging from factory production to life insurance to foster care to litigation, children were treated as laborers. Life insurance for children was designed to replace children's income. Foster parents favored older boys because of their earning potential. The courts awarded the parents of children killed in accidents remuneration based on the child's lost wages. A network of social reformers sought to protect children from the industrial labor market, describing childhood as a sacred category and defining children's value to parents as primarily emotional rather than economic. Their successes could be counted in institutional changes. Most forms of child labor were outlawed. Life insurance for children was transformed to provide parents with compensation for their grief over the loss of a child. Adoptive parents came to favor baby girls, who were inferior workers but superior objects of emotional attachment. The courts awarded grieving parents compensation for their emotional loss. Between 1870 and 1930, new norms about the role of children in capitalism were institutionalized. Employers themselves came to argue that children's time was better spent in schooling that would prepare them for the workforce. A social movement thus brought about a new rationalization of childhood centered on education rather than on labor.

Like Kiser and Schneider, Julia Adams (1996) is interested in the problem of agency and revenue collection among early European states. She argues alongside Durkheim that identity often causes individuals to conform to economic norms. But identity, in this case as honorable members of the Dutch colonial empire, was not always enough. The early Dutch East India trading network brought substantial revenues back to Holland. With the growth of Britain's parallel East India trading network, Dutch agents found an alternative trading route and many of them became free agents, acting for their own enrichment rather than for the good of their principal, the empire. The weak incentives to stick with the Dutch network were to blame. The British Empire reduced incentives to leave their network, and its agents were less likely to defect. The structure of the social network and its efficacy at binding individuals to society were key to predicting whether agents would stand by their principals.

Networks and Economic Development

Network position also shapes the roles that different nations play in the international order. Marx recognized this, and so especially did Lenin ([1916] 1971) in his work on imperialism. Immanuel Wallerstein's (1976, 1980) sweeping historical studies of the evolution of the world system suggest that late developers will follow a different pattern than early developers in part because their profits will be drawn toward early developing countries rather than remaining at home. Core countries, in Wallerstein's model, will buy raw materials and agricultural goods from peripheral countries at low prices. Power, in terms of core countries' capacity to make war and control technology, keeps peripheral countries in subordinate positions. Wallerstein's studies built directly on the work of Paul Baran, who similarly contended that differences in a country's location in the global trade network would shape the pattern of development and that power was the key factor that permitted developed nations to extract value from underdeveloped nations (Baran 1957; Baran and Sweezy 1966).

Cardoso and Faletto's (1979) *Dependency and Development in Latin America* took on the problem of the economic dependency of underdeveloped nations on developed nations. (Cardoso is best known for holding Brazil's presidency from 1994 to 2002.) Baran (1957) had argued that development would be stalled in underdeveloped nations by the fact that developed nations extract value from them—by the fact that they pay little for farm products, wood, oil, and minerals. Cardoso and Faletto (1979) refine the idea, arguing that class characteristics of developing countries shape their relations of dependency with core countries and thus shape industry. Cardoso and Faletto describe different patterns of local class incorporation in the international economy that correspond to typical phases in the evolution of dependency. At first, commercial groups are involved in the transfer of raw

materials. Later, the urban middle classes and the industrial bourgeoisie play roles, as countries begin to trade in manufactured goods. When a country starts to substitute local products for imports, a wider range of social groups becomes involved in manufacturing. At each stage, the collaboration of local elites helps shape the kind of relationship a dependent country will have with the core, with export platform manufacturing requiring a very different pattern of cross-national class relations than, say, mining and lumbering. Here, international cross-class networks shape the pattern of development.

Whereas Cardoso and Faletto (1979) find that the international network shapes how export industries will be structured in developing countries, Gary Gereffi's (1983) systematic analysis of a single industry in 14 countries shows a similar pattern based on the strength of multinationals. Gereffi shows that powerful multinationals producing steroids suppress the development of domestically owned competitors in all these settings—multinational power trumps all kinds of domestic configurations. It is their market power and their willingness to bend the rules, rather than their efficiency, that keep multinationals in charge of this industry. Gereffi and colleagues (Gereffi and Korzeniewicz 1994) have refocused comparative studies of development, turning away from the dependent nation to the production network, or the "commodity chain." They trace goods from the extraction of raw materials to the consumer. As transnational corporations made the production process truly global in many industries, commodity chains became increasingly complex, wending through many countries. Case studies of different industries reveal that transnational corporations make use of unregulated extractive industries in one location, low wages in another, and advanced manufacturing techniques in a third. They practice the concept of comparative advantage, shopping for the best wages, environmental regulations, and so on, for each stage in the production process.

Peter Evans has focused on how networks of bureaucrats, multinationals, and local capitalists can foster development. Conventional wisdom suggests that laissez-faire state policies produce growth. In two books, one principally on Brazil (*Dependent Development* 1979) and one comparing Brazil with Korea and India (*Embedded Autonomy* 1995), Evans amends this wisdom. First, he finds that in virtually all successful cases of development, the state takes an active role in the promotion of industry. Comparisons across industries in Brazil make this clear. Second, he suggests that states need to be *autonomous* to develop successful growth strategies. Weberian norms of rationality make states effective managers of the economy. Where capitalists hold state bureaucrats in their pockets, dynamic growth rarely ensues. Third, in successful cases of development, states need to be embedded in societal networks in order to gain information on industry and to be able to influence industry. A comparison of the information technology industries in Brazil, Korea, and India provides evidence. For successful development, bureaucratic

rules must contain the power of societal groups over the state, but the state must play an active role in development, and to do so effectively, state elites must be involved in networks of entrepreneurs and financiers.

Roles and Institutions in the Transition to Capitalism

The transition to capitalism has provided a sort of natural laboratory for analyzing rapid shifts in economic practices in Eastern Europe, in the former Soviet Union, and in China. In the short run, the plans for transition via "shock therapy" sketched by economist Jeffrey Sachs (1989) appeared to have failed, and this brought greater interest in sociological analyses of the transition. Followers of "shock therapy" believed that by destroying socialist economic forms, such as collective ownership, they would unleash the power of markets. Sociological analyses suggest that no one particular system fills the void—not American-style neoliberalism, but certainly not Japanese-style state-industry collaboration either. As Weber would predict, institutions do not change so easily. As Durkheim would suggest, social roles and social networks often explain which systems do change.

Iván Szelényi (1983) documented the emergence of proto-capitalist enterprises even before socialism fell, abruptly, in Eastern Europe in 1989. In *The Intellectuals on the Road to Class Power*, Konrád and Szelényi (1979) showed that intellectuals were becoming the ruling class under modern socialism. Yet by the late 1980s, Szelényi et al. (1988) found that a new bourgeois elite was rising in Hungary, contrary to all expectations. It was a farming elite, producing agricultural goods for sale in private markets. Szelényi found that the participants were typically from families that had been entrepreneurial even before the advent of communism in Hungary. Some 40 years later, the entrepreneurial inclination survived in these families, and some developed active and quite successful businesses targeting unmet demand for agricultural goods in private, unregulated markets. Szelényi argues that the continuity in family roles explains this. In Hungary, those whose families were on the path to embourgeoisement in 1944 put their ambitions on hold but revived those ambitions as a private, secondary economy emerged that allowed them to behave as entrepreneurs. The role in the old network proved to be the defining characteristic of the role in the new.

David Stark's laboratory is Eastern Europe after the fall of communism, and there he finds that societies with strong social networks that encourage political participation have the greatest potential for growth (Stark 1992a, 1992b; Stark and Bruszt 1998). Stark's study of post-1989 privatization strategies challenges the idea of "cookbook capitalism"—the idea that one can use a single recipe to create identical capitalist systems everywhere. Countries pursuing the recipe for privatization built very different systems, based on pre-1989 institutions and assumptions

(1992). States chose either corporations or individuals to acquire stock in state-owned firms, and they distributed stock either to those who could buy it or to those who, they deemed, had a right to it. Czechoslovakia and Poland chose citizens to acquire stock, the former selling it in a voucher auction and the latter distributing it through citizen grants. East Germany and Hungary both chose corporations to acquire stock, the former selling it and the latter reorganizing enterprises that would own themselves. The form of public ownership of corporations under communism, and the structure of elite networks, account for these differences. Some transitions are more successful than others. Stark and Bruszt's (1998) *Postsocialist Pathways* shows that the structure of social ties matters more than the extent to which nations have approximated the neoliberal model of the market. Consistency in the property rights regime is a precondition to success, and consistency is a consequence of a society's network structure. Where there is a "deliberative association" of producers that generates a market that is open and participatory, policy continuity and growth ensue. The Czech Republic's consistent policies are one result, and they contrast starkly with Hungary's policy vacillations.

Victor Nee (1989, 1991, 1992, 1996) studies the ways in which policy institutions have shaped the interests of elites in the Chinese transition to capitalism and the implications for the transition. The implicit story is that economic practices and structures persist because they produce a sort of equilibrium of interests, but that change in policy can alter interests and economic patterns. When public policy encouraged entrepreneurialism, government officials were the first out of the gate because they had the requisite knowledge and access to resources (Nee 1991). Yet when state cadres used privileges of position to build enterprises, they created a crisis of legitimacy in party socialism that further hastened the move toward capitalism (Nee 1996). Here a change in the incentives created by public policy brought about a new set of economic behaviors that fed back into the political system. Policy incentives can also shape the forms of enterprise that emerge under capitalism. In "Organizational Dynamics of Market Transition," Nee (1992) shows that China's transformation did not spawn a single enterprise form, because public policy continued to support hybrid forms such as cooperatives and enterprises owned by local governments. These forms were not inherently uncompetitive when they came head-to-head with private enterprises organized on the Western model. Their competitiveness depended on whether public policy encouraged efficiency in the particular form. Nee's rich analyses point to the importance of long-standing social networks for the transition to capitalism.

Douglas Guthrie's (1999) *Dragon in a Three-Piece Suit: The Emergence of Capitalism in China* charts changes in Chinese management practices during the 1990s, as a growing number of enterprises adopted Western management conventions. It is not those that

need reform that move toward the Western conventions of bureaucratic wage and promotion systems, market pricing, diversification into the profitable service sector, and adoption of company law as a governance form. Two things matter. Networks matter, and specifically links to Western ideas, through the training of managers or through joint contracts with Western firms. And enterprises that had received significant public subsidies in the past change quickly after being cut off from public funding. Guthrie thus finds that institutional theory, with its emphasis on crises catalyzing change and its emphasis on the spread of new strategies through networks, better explains new corporate strategies in China than does efficiency theory.

CONCLUSION

Since its renaissance began in the late 1970s, the field of economic sociology has explored how three mechanisms produce economic behavior patterns in modern societies. First, in studying power, Marx (1974) had found that the emerging bourgeoisie under late feudalism used their new-found economic resources to move public policy in their direction, so that policy favored capitalist activities. The modern state professes neutrality in matters economic, Marx contended, but in fact it pursues policies that favor particular groups in the name of the collective good. By analogy, William Roy (1997) shows that the legal rules that made the corporation the most profitable governance structure were backed by a particular group of capitalists, who succeeded in convincing society at large that limited liability and kindred legal forms were good not only for the owners of corporations but also for the society.

Second, existing economic institutions and customs shape the new institutions and customs that emerge. This happens in part because existing institutions provide models of how the world should be organized and resources for organizing new fields of activity in the way that old fields were organized. Historical studies find dramatic shifts in economic behavior and institutions over time, but they also find that countries build on past experience. Hamilton and Biggart (1988) trace the modern industrial strategies of Japan, South Korea, and Taiwan not to postwar innovations in industrial policy but to the strategic use of traditional forms of state-private sector relations.

Third, networks are the conduits through which new economic customs diffuse as role prescriptions and through which power is exercised. Social networks take very different forms, and concrete networks determine what is possible in economic life and what is not. For Gao (2001), the close ties between state officials and corporations in Japan, and the resulting absence of formal controls over corporate activity, played a role in the economic collapse of the 1990s. Networks also define social roles for their members, and many studies have shown that individuals follow social norms promoted by networks

unthinkingly in economic life rather than making rational calculations at every crossroad.

Economic sociologists have not challenged the idea that people seek profits or the idea that economic institutions have become more efficient over time. As a group, they have challenged the idea that profit-seeking translates transparently and straightforwardly into behavioral prescriptions. If the society you live in influences how you seek profits, then understanding how it does so is the job of economic sociology. Economic sociologists may emphasize one process or another when they are trying to explain economic behavior, but increasingly they find all three of these processes at work (Fligstein 2001).

In the twenty-first century, economic sociologists will increase their attention to how growing international exchange is shaping domestic economic behavior patterns and institutions. Their empirical focus will be on how new economic practices travel from one place to another. Their theoretical focus will be on how these three mechanisms interact to generate economic practices and institutions. Whereas economic theorists have often concerned themselves with where the economy is going—with what changes will emerge—economic sociologists have been concerned with how the economy gets there—with how change comes about. For economic sociologists, understanding how changes occur is the key to understanding which changes occur.

MEDICAL SOCIOLOGY

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With a formal institutional history that dates back more than 50 years, the academic discipline of medical/health sociology is both rich and varied. As one of the largest subfields in sociology, it has explored a long list of health care issues, including the physician-patient relationship, illness behavior, stress and coping, the social distribution of health, medical professionalism, health care policy, and public health. It also has drawn on and made excellent use of a wide range of sociological theories, including structural functionalism, symbolic interactionism, feminism, and postmodernism. Finally, it has intersected with a variety of other social sciences, including medical anthropology, health psychology, and epidemiology, to produce an important literature that has helped to improve the practice of medicine and the health and well-being of people worldwide.

In light of this richness and diversity, we seek first to identify resources that will enable readers to have a deeper appreciation for the field of medical/health sociology. Second, we highlight ways of thinking about medicine and health care from a sociological perspective, which, in turn, may enhance our understanding and possibly assist in managing what has become society's most complex social institution.

This chapter is organized into three sections. First, we briefly explore medical sociology's historical roots. Second, we address the issue of what makes medical sociology sociological. That is, we assess how sociology

contributes to our understanding of health and illness and how medical sociology contributes to the general sociological discourse. Third, we examine medical sociology in terms of the major sociological theories it draws upon to study health care issues.

Throughout this chapter (and per above), we will use the terms "medical sociology," "health sociology," and "sociology of health and illness" interchangeably or in some combination (e.g., medical/health sociology). Over the years, there has been considerable debate about what to label academic sociology's foray into the world of medicine, health, and illness. Herein, it is important only to note the debate.

HISTORICAL ROOTS

Medical sociology can trace its intellectual lineage to the late 1800s. In the waning decades of the nineteenth century, two nascent disciplines, sociology and allopathic medicine, began to cross paths in small but significant ways. For allopathic medicine, this time period witnessed the beginnings of medicine's ongoing attempts to consolidate its professional powers and social legitimacy. Meanwhile, *sociology* (the term being first coined by Auguste Comte in 1838) was beginning to emerge as a distinct discipline. In the United States, for example, Herbert Spencer's *The Principles of Sociology* (three volumes, 1876–1896) was a seminal