Economic Sociology - Old and New

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Abstract: In this article, we discuss 'classical' sociology and 'new' economic sociology to show the interest of sociologists in economic issues and to examine the relationship between economics and sociology from a sociological perspective. We maintain that, besides empirical studies, sociologists have contributed to the analysis of economic systems, organisations, and action through the development of theoretical approaches to answer two basic questions: Why are the neoclassical assumptions about action problematic? And how are rational economic actions and systems produced? Sociologists have worked on three frontiers to answer these questions. First, by developing a more nuanced action theory. Second, by elaborating the concept of *embeddedness* to capture how economic action is influenced by cognitive, cultural, structural, and political contexts. Third, by understanding the historical *differentiation and rationalisation* of institutions and action contexts that produces instrumental rationality.

Keywords: classical sociology; new economic sociology; action theory; embeddedness; differentiation.

1 Introduction

In this article we give a basic overview of sociology, both in terms of its interest in studying economic relations and processes, and its development in relation to economics. We discuss the sub-discipline of economic sociology, which consists of at least two streams, classical or 'old' economic sociology and contemporary or 'new' economic sociology. Our aim is to show the interest that sociologists have taken in economic issues and to examine the relationship with economics from a sociological perspective. Our main argument is that sociology, besides its empirical study of economic issues, contributes to the analysis of economic systems, organisations, and action through the development of three theoretical approaches: a nuanced *action theory*; the concept of *embeddedness* to capture how economic action is influenced by cognitive, cultural, structural, and political contexts of action; and third the conceptualisation of a historical process of *differentiation and rationalisation* enhancing instrumental rationality in action and organisations.

2 'Classical' sociologists on economy and society

Since its establishment as a university discipline in the late 19th century, sociology has had quite an agonistic relation to economics. Some even claim that sociology was born as a critical reaction to the development of economics out of the tradition of political economy. Not surprisingly then, Karl Marx (1818−1883) is often mentioned as a major theorist in sociology, though the term *sociology* was proposed by the French evolutionist and positivist philosopher Auguste Comte (1798−1857) and popularised by the English liberal evolutionist Herbert Spencer (1820−1903). As with the first generation of academic sociologists in France and Germany – headed by scholars such as Gabriel Tarde (1843−1904) and Émile Durkheim (1858−1917) in France and Ferdinand Tönnies (1855−1936), Georg Simmel (1858−1918), and Max Weber (1864−1920) in Germany – they took interest in economic issues, though their view of economic thought was somewhat ambivalent, if not downright antagonistic.

The late 19th century 'classics' of sociology emphasised the relation between the economy and other spheres of society (culture, politics, religion, law, etc.) under the designations 'social economy', 'economy and society', 'economic sociology', or simply 'sociology'.[1] Sociology was not simply advanced as an attempt to understand modern industrial society and the development of capitalism (Carruthers, 2005, p.333). It has even been claimed that

[1] For general overviews see Holton (1992), Smelser (1963, p.4-21), and Swedberg (1998, p.173ff).

sociology originated as a response to economic theories of society, in an attempt to reconnect the allocation of scarce resources with social integration and solidarity (Turner, 1999, pp.278–283). These issues had previously been connected in political economic thinking, but were divorced in the marginalist revolution of the 1870s and subsequent emphasis of neoclassical economics on utilitarianism, methodological individualism, and mathematical theory (Sandelin et al., 2002; Weintraub, 2002).

With the emergence of modern society, early sociologists highlighted a number of problematic social and economic issues that became central themes in their writing, including the decline of community, class conflicts, alienation, disenchantment, and loss of norms (*anomie*), and the extension of impersonal relations and egoistic individualism.

Tönnies and Durkheim described the spread of individualistic egoism and instrumental relations in the modern economy in their general theories of social integration. The integrative function of impersonal market relations (Smith's 'invisible hand') was discussed as a shift from *Mechanic solidarity*, or *Gemeinschaft*, to *Organic solidarity*, or *Gesellschaft*. Both concepts were designed to explain how societies could be integrated despite the dissolution of traditional moral communities through the evermore specialized *social* (in contrast to Smith's *individual*) division of labour in society – that is, social differentiation (Durkheim, 1964; Tönnies, 1974).

Tönnies discussed the economic aspects of *Gesellschaft* only in part, but he indicated that this explained how the modern 'economic man' was socially created by the fostering of individualism and self-interested motives, not least by the money and credit systems (Tönnies, 1974, p.85ff). Durkheim criticised economists who advocated individualism and egoism as 'rational', because such motivations let loose insatiable desires and hedonistic behaviour, and created a situation of *anomie* (normlessness). The effect was not only individual unhappiness, but also the economic crises, political corruption scandals, and class conflicts of the late 19th century (Durkheim, 1964, pp.1−3, 1952). Because older religiously-based moral communities were dissolving, Durkheim sought new ones that could integrate individuals in society. He claimed that professional organisations were important sources for new moral communities, not least because of their capacity to develop self-regulatory ethical guidelines adapted to an extensive social division of labour in society. He found it problematic that business lacked such self-regulatory associations, but was sceptical of strong state interventions. Therefore, he advocated the development of professional ethics in business to counteract totally free competition based on individual self-interest (Durkheim, 1957, pp.11−13).

Gabriel Tarde developed his ideas for a sociology based on individualism (centred around the mechanisms of imitation) before Durkheim became the most well-known French sociologist. His general sociology discussed some concepts relevant to the economy, such as competition, but his importance as an economic sociologist was established with his work on *Economic Psychology* (1902). His starting point was that economists had neglected to adequately discuss the psychological foundation of the economy (cf., Kahneman and Tversky, 2000).[2] Therefore, Tarde developed such a theory. He proposed that motivation was based on desires and beliefs, and applied this theory to issues such as innovation and entrepreneurship, and advertising and selling, as well as to money, prices, and values (Wärneryd, 2007).

Simmel's *The Philosophy of Money* (1900) addresses economic issues at full length. The book focuses on the social meaning of money as a symbol, and was both a "translation" of Marx's economic discussions into the language of psychology and a forerunner to Weber's work on the rationalisation of economic and social life (Frisby, 1990). Simmel discussed the effects of money on social relations through the monetarisation of culture in terms of quantification, reification, distantiation, and the creation of personal liberty and impersonal ties, but he also discussed how money was grounded in abstract social trust (Deflem, 2003).

As an economist, Max Weber wrote extensively on economic matters (Swedberg, 1998, p.173ff). Against this background, he subsequently developed an economic sociological approach, of which *The Protestant Ethic and the Spirit of Capitalism* (Weber, 1992) and *Economy and Society* (Weber, 1978) are his most well-known works. The former focuses on the cultural formation of economic rationalism and the systemic effects of the modern economic system in producing the subjects and mentalities it needs, while grounding these thoughts in the historical differentiation of separate value spheres in society. The latter work encompasses a whole paradigm of sociological thinking, but it is best known, perhaps, for the action-theoretical typology distinguishing between 'affectual' and 'traditional' action, and two types of rational action: 'goal rationality' and 'value rationality'.

[2] See Weber and Dawes (2005) for a discussion of the relationship between economic psychology (or behavioural economics) and economic sociology.

These classics constitute from a European perspective the ‘old’ economic sociology (e.g., Steiner, 1995; Swedberg, 2003, pp.1–52). From the US perspective, the ‘old’ economic sociology consists basically of Talcott Parsons’ (1902−1979) work on action theory (1937) and Parsons and Smelser’s (1956) *Economy and Society* (Granovetter, 1992; Guillén et al., 2002; cf., Dobbin, 2004, pp.2–4). Parsons’ action theory, which highlighted the normative aspect of human action, actually took the micro-level disciplinary distinction between economics and sociology as its point of departure. He said, “Sociology [is] a special analytical science on the same level as economic theory” (Parsons, 1968, p.773).[3] This disciplinary distinction was also important in Parsons’ later theories, in which he sought to develop a macroanalysis of society and its economy as systems. *Economy and Society* is one important result of this project, with its attempt not only to study how markets connect the economy to others sectors of society, but also to “contribute to the synthesis of theory in economics and sociology” (Parsons and Smelser, 1956, p.xvii).[4]

> Parsons developed an interdisciplinary model of the social sciences within which economics is a science of scarcity. It is essentially a study of the rational application of effort to the satisfaction of wants in an environment of competitive scarcity. Sociology by contrast involves the analysis

[3] This solution differs from the traditional sociological answer to the disciplinary division from an economist’s standpoint, such as Pareto’s (1935) claim that economics deals with *logico-rational* action and sociology with *non-rational* actions. To reintegrate Pareto into the classics of economic sociology, some researchers have recently questioned the accuracy of this claim (e.g., Daziel and Higgins, 2006), but in fact Pareto also suggested that “Economics is a small part of sociology, and pure economics is a small part of economics” (1935, p.1194, fn. 5). Since Comte, sociologists have usually chosen to see economic action and institutions as a subdivision of social action and institutions in general, that is, ‘economic imperialism’ hasbeen met head on with ‘sociological imperialism’ (cf., Zafirovski, 1999).

[4] Parsons leaned not only on the European classics but also on the ‘old’ American institutionalists who shared some of the concerns of European sociologists such as Thorstein Veblen (1857–1929) and Wesley Mitchell (1874–1948) even though he thought they had taken a false path with their ‘empiricist’ methodology and ‘positivist’ tendencies toward psychological and biological reductionism (Camic, 1992, p.431). Parsons was knowledgeable about younger economic institutionalists, especially his teachers Walton Hale Hamilton (1881–1958) and Clarence Edwin Ayres (1891–1972), but he chose to neglect them even though they welcomed the discipline of sociology. According to Camic (1992), he did so because institutionalism had a negative reputation during the 1920s and 1930s and was considered a dead end. Thus, Parsons sided with neoclassical economists claiming that sociology and the analysis of institutions should be a complement to economics, not a substitute for it (Velthuis, 1999, p.630).

> of the conditions of social solidarity through shared rituals, common values and consensual norms. For sociology, religion (especially religious rituals and ceremonies) has been the fundamental social cement of social existence. (Turner and Rojek, 2001, p.ix)

Neil Smelser continued working from this approach with his dissertation (1959) and subsequent theoretical elaborations (1963, 1976). Others in US post-war sociology, however, were inspired by both Weber and Marx and were less in tune with economics. Even though he was not a sociologist, Karl Polanyi (1886−1964) has had a great impact on contemporary economic sociology, not least with his discussion about the 'embeddedness' of economies in *The Great Transformation* (Polanyi, 2001 [1944]). We might also mention C. Wright Mills (1916−1962), a critic of Parsons who not only turned against Parsons' abstract theorising, but with *The Power Elite* (1956) replaced Parsons' focus on social functions with a focus on the power of certain individuals on the 'military-industrial complex' – the historical union in US society of military, economic, and state power.

3 The 'new' economic sociology

Since the mid-1980s the 'new' economic sociology has been expanding. The 'new' is a shift in focus from the relations between economy and society to the central institutions of the economy, such as markets, prices, money, and corporations. In addition to adding social context to the study of economics, by focusing on power, solidarity, and the integration of economic processes in society, it tries to understand the internal social constitution or even 'social construction' of the economy. In contrast to Parsons, it even tries to develop substitutes to neoclassical economics, and thus it shares some traits with institutionalist economics (Velthuis, 1999).

The 'new' economic sociology has been defined in a number of ways, but generally it is "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 and Swedberg, 2005, p.3; cf., Smelser, 1963, p.32). The aim is to understand central economic institutions sociologically on several levels of analysis, from micro to global, including their meaning for actors, how they are socially constructed, and their social causes and effects (Guillén et al., 2002, p.6).

However, just as the difference between economics and sociology (or even between economic sociology and general sociology) should not be exaggerated, the difference between the ‘old’ and the ‘new’ economic sociology should not be exaggerated either. There are many similarities (Steiner, 1995; Zafirovski, 1999). The European classics discussed economic institutions such as money, market competition, firms, and contracts. In addition, the European understanding of the ‘new’ economic sociology is broader than the US understanding. A number of European theoreticians have developed general sociological theories and concepts, such as Jürgen Habermas and Niklas Luhmann in Germany and Pierre Bourdieu in France, and thus closer to the tradition of the old classics (e.g., Beckert, 2000, 2002; Heilbron, 1999; Swedberg, 2003, 2009).

The ‘new’ economic sociology developed in opposition to central assumptions in neoclassical economic theory: that the economy is an equilibrium system that may function independent of the surrounding society; and methodological individualism, based on the assumption that the actors are rational maximisers of utility. In contrast, economic sociology emphasises the embeddedness of actors and economies in social networks and institutions; it focuses on conflicts of interest that create instability and conflict rather than competitive equilibriums; and it claims that the actors’ rationality and motives are varying, and that markets are socially constructed (Carruthers, 2005; Granovetter, 1992; Guillén et al., 2002; Hirsch et al., 1990; Smelser and Swedberg, 2005; Swedberg et al., 1990).

> Today, economic sociology informs its study of the economy with skepticism toward vacuous formal models and a growing appreciation of historical context. It problematizes rationality and insists on the importance of relationships among economic actors. Furthermore, it is concerned to understand *markets* and the *framework for markets* as institutions. (Carruthers, 2005, p.335)

Such a critical approach may be criticised for misrecognising the complexity of contemporary economics by just discussing its textbook versions. However, we should also remember that many economic sociologists are interested in discussing nuances and theoretical advances within economics (e.g., Aspers et al., 2008; Swedberg et al., 1990; Beckert, 1996; Swedberg, 1990). Even though the ‘new’ economic sociology primarily has an empirical research agenda, it is theoretically unified by the commonality of providing alternatives to neoclassical explanations of economic action based on assumptions about calculative rationality and utility maximisation from a given set of preferences.[5] Two basic questions sum up many of the advances in economically relevant sociological theorising. The first is, ‘Why are the neoclassical assumptions about action problematic?’, and the second, ‘How are rational economic actions and systems produced?’

4 The rationality of actors: action-theoretical concepts

The first question refers to the argument that even though ‘economic men’ may exist, they cannot be assumed as a starting point for economic analysis. Even if we could empirically establish the extent to which they exist in specific situations, we still need to explain what produced them. In other words, sociologists do not claim that there are *no* rational actions, but they want to understand what varieties of actor-motives and rationality we can find empirically, and to explain how economically rational actors may be socially produced (e.g., Abolafia, 1996; Beckert, 2002; Bourdieu, 2005; Callon, 1998; DiMaggio, 1994).

Sociological theory has two diverging (though not fully mutually exclusive) answers to the first question. One is found in the methodological individualist approach. It claims that human action is not only ‘goal rational’ (Weber), ‘logico-rational’ (Pareto), or ‘instrumental’ (Habermas), but it must be conceptualised in more nuanced ways. The second answer, preferred in methodological collectivist approaches, is that action is always embedded in and (co-)produced by the social context. In accordance with these two answers, a lot of economically relevant sociological theory and studies have focused on variation in human action and interaction, as well as on the social institutions and structures that influence it (Steiner, 1995).

There are a number of action theories in classic and contemporary sociology. Pareto (1916) drew a simple distinction between logical and non-logical action, the former being actions that “use means appropriate to ends and which logically link means to ends”, not only for the actor, but in the eyes of “other persons who have a more extensive knowledge” (Pareto, 1935, p.77). Weber (1978) refined this crude distinction with a fourfold typology of affectual action, traditional action, value-rational action and instrumentally rational action (or goal-rational action). Whereas affectual action centres on emotionally-based action (e.g., panic on the stock market), traditional action refers more to the habitual aspects of action (e.g., there are few or

[5] This is one of many elements that economic sociology shares with the heterodox economics.

no business activities on weekends). Such habitual action is related to value-rational action, though the latter is based on an ethical assessment of ideal interests (e.g., salvation). It is oriented towards fulfilling some norm or ethical conviction with little regard to other consequences of the action (e.g., Islamic banks do not usually pay interest on deposits because of religious convictions). Instrumental action, finally, is mainly oriented towards material interests (such as happiness or wealth), but it may have different emphases: 'Rational economic action' is about choosing efficiently between ends (e.g., what to produce), whereas 'technology' is about choosing between means (*how* to mine coal efficiently, for example; Weber, 1978, p.66ff; Swedberg, 1998, p.22ff). In addition, Weber did not conceive of 'rational action' as a naturally given starting point for a theory of action, but as a product of history (Joas, 1996, p.34ff; Schluchter, 1981, p.25ff).

These conceptualisations were a springboard for Parsons' (1937) action theory, which tried to establish a division of labour between economics and sociology. Whereas the analysis of the instrumental aspects of action (its means-end logic) was the focus of economics, sociology should specialise on the value elements of action – that is, the ultimate ends of action. The latter problem was solved by the concept of 'normative action', which focused on how the goals of actions are based on values anchored in social value systems and norm systems (Parsons, 1968 [1937]). Later action-theoretical developments have been made against the background of Parsons' synthesis, including communicatively oriented action, or 'communicative rationality', and the concepts of 'expressive self-presentations' and 'dramaturgical action' elaborated by Habermas (1984). Communicative action means that every form of social action rests on successful communication between actors, because no coordination is possible without a shared language and knowledge about specific social situations. Thus, Habermas placed the basis of action in intersubjectivity, as Hans Joas subsequently did in his pragmatist inspired action-theoretical discussion. Joas found another fundamental problem with the theories of rational action, suggesting that "the very concept of *action* isolates individual action from its context" and thus conceals the *creativity* of action (Joas, 1996).

Following in the tradition of Habermas and Joas, Jens Beckert argues that economic sociology should focus less on the problems of instrumental rationality and more on issues associated with the *conditions* that precede instrumental rationality. Here, he is referring to the problems of fundamental uncertainty – very close to the problem of uncertainty in post-Keynesian economics. He states that we may "want to maximize our utility, but do not know which strategy of behavior to choose because we do not know the causal relations from which we can deduce an optimizing decision. It is not *irrational* to act rationally but rather *impossible* to act rationally" (Beckert, 2002, p.37). This means that human actors are always dependent on tradition, habit, routines, norms, institutions, structural predispositions of decisions, and power – in short, the objects of sociology (Beckert, 1996, p.827). Thus, we must turn to the *embeddedness* of action to understand what is happening in economic actions and organisations.

5 The embeddedness of economic actions and markets

Even though the above action-theoretical concepts focus on individual actions and interactions, they have a strong kinship with the methodological collectivist answer, because they view social action as conditioned by the 'action situation' and the cultural and material resources and obstacles that exist in the action context. In economic sociology this referred to as action being 'embedded'. In fact, Granovetter's (1985) article on embeddedness gave the new economic sociology something of a boost with, in which he used Polanyi's analysis, but questioned it for being influenced by an "oversocialized conception of man in modern sociology". He narrowed the concept of embeddedness to "the role of concrete personal relations and structures (or 'networks')". However, Granovetter was in turn criticised for not acknowledging the importance of impersonal relations and impersonal trust produced by "procedural norms, structural constraints, entry restrictions, policing mechanisms, social control specialists, and insurance-like arrangements" (Shapiro, 1987, p.623). Subsequently, other sociologists have tried to expand the notion of embeddedness again by discussing the embeddedness of action in a whole social system (Barber, 1995); or by introducing different types of embeddedness, such as cognitive, cultural, structural, and political (Zukin and Dimaggio, 1990).

Cognitive embeddedness means that a group of individuals share similar frames of mind, formed by tradition, habits, conventions, rules, scripts, and economic knowledge (cf., Beckert, 1996; Steiner, 2001). Bourdieu's concept of *habitus* exemplifies how such embeddedness works: individuals do not allocate resources mechanically in terms of instrumental rationality, but for a practical reason embedded in their habitus, which is a "socialized subjectivity, a historic transcendental, whose schemes of perception and appreciation (systems of preferences, tastes, etc.) are the product of collective and individual history" (Bourdieu, 2005, p.211). Habitus, thus, refers to an individual's internalised and embodied social and cultural structures, and in so far as economic actors act 'rationally', it is "because of dispositions acquired through learning processes" (Bourdieu, 2005, p.8).

Economics as a discipline contributes by 'teaching' economic actors to think and act economically. At least, Michel Callon made that argument in his analysis of the "embeddedness of economic markets in economics" (Callon, 1998; cf., Luhmann, 1998, p.76ff). Boltanski and Thévenot's *On Justification: Economies of Worth* (1991), with its focus on situationally determined values and justifications of action, also illustrates such cognitive embeddedness. In addition, a study by Jocelyn Pixley (2004), where she argues that the uncertainty financial actors and bankers meet can only be dealt with by emotional projection stabilised by impersonal relations of trust and distrust. This could be described as 'emotional embeddedness', but it is close enough to be subsumed under the heading 'cognitive'.

Cultural embeddedness is similar to cognitive embeddedness, but it refers to the institutional or cultural level, common to many actors. This is the normative and regulatory organisation of a society, and comprises the value system of that society, institutionalised in religious or legal systems. Paul DiMaggio, for example, has written extensively on organisational analysis focusing on non-profit and art organisations (DiMaggio, 1986; Powell and DiMaggio, 1991). In one of his most prominent contributions to this field (co-authored with Walter Powell), he argued that organisations are often established in a certain way not because they are efficient but because they harness legitimacy with stakeholders outside the given organisation (DiMaggio and Powell, 1983). Frank Dobbin is another economic sociologist who combines cultural and historical approaches to organisation studies. Both his 1994 study on how national institutional differences shaped different patterns of railway development in Britain, France, and the USA, and his recent work (Dobbin, 2009) on equal opportunity are examples of the institutional perspective. Another example that illustrates the similarity of cognitive and cultural embeddedness is Neil Fligstein's historical study of *The Transformation of Corporate Control* (1990) in the USA. In this study, Fligstein (1990, p.10) focuses on 'conceptions of control', which are "totalizing world views that cause actors to interpret every situation from a given perspective".

Structural embeddedness refers to the various social positions individuals occupy in different situations, and the concept of 'networks', which refers to the formal and informal links between individuals at the micro level, is used to explain how relatively stable social organisations and interactions can occur (Granovetter, 1985). In his seminal book *Markets from Networks*, Harrison White (2002) shows that the emergence and reproduction of markets is one such important social organisation that cannot exist without myriad social ties to construct a market in the first place, which can be exploited in various ways depending on their structure. As explored by Ronald Burt (1992, 2010), one such strategic exploitation is based on the flow of information between economic agents, which depends on access to the structural holes and 'social capital' in networks of individuals and firms. The concept of the network is also important in actor-network theory (ANT), which has gained some ground in economic sociology (Pinch and Swedberg, 2008). From the ANT perspective, not only humans occupy positions in a network, but even material objects and artefacts. It is argued that the social world cannot be stable without artefacts. Bourdieu's (1996, p.300ff) concept of 'field' is yet another example of how structural embeddedness is relevant, especially in his studies of how power over the French economy is shaped by both the 'social capital' of the actors and the structure of the establishment schools.

Political embeddedness refers to the formal organisation of authoritarian relations between individuals and macro organisations (Zafirovski, 2001, p.9ff). Neil Fligstein, for instance, adds to the network perspective on markets the basic insight that markets cannot exist without extensive institutional support. Therefore, market competition between economic actors and the creation of wealth depends on both social and political conditions (Fligstein, 2001). In his more recent work *Euroclash*, Fligstein (2008) studies how political embeddedness functions on a regional level (cf., Stone Sweet et al., 2001). Although he is not usually considered an economic sociologist, we would like to mention John Braithwaite's numerous books on regulation and regulatory capitalism, which thoroughly describe the workings of the state and the private regulation of markets (e.g., Braithwaite, 2008). Similarly, one might view some of the works from the so-called *governmentality school* a new form of political embeddedness of economic actors (e.g., Rose and Miller, 2008). There are also studies that analyse the more informal but still 'political' influence on markets that consists of consumers 'moralising' the market in an indirect way by letting political and ideological values inform their decisions (Stehr et al., 2006).

In addition Ilmonen et al. (2001) view the sociology of consumption as a part of the field of economic sociology. Because of space limitations, we have chosen not to discuss this research.

6 Economic systems and institutions: differentiation and rationalisation

If the 'new' economic sociology is mainly represented by the previously mentioned approaches, the 'old' question of the relation between the economy and other social spheres still lives on in sociology. In Granovetter's celebrated article on embeddedness, he asserted, contrary to Polanyi, that:

> The level of embeddedness of economic behavior is lower in non-market societies than is claimed by substantivists and development theorists, and it has changed less with 'modernization' than they believe; but I argue also that this level has always been and continues to be more substantial than is allowed for by formalists and economists. (Granovetter, 1985, p.482)

This contravened not only the traditions mentioned, but nearly all conventional sociological wisdom from Tönnie's and Durkheim's concepts of *Gesellschaft* and *Organic solidarity* onwards. These concepts, which only touched upon issues to be developed more fully in Simmel and Weber, dealt with the second central question that economically relevant sociological theory tries to answer: 'How are rational economic actions and systems produced?'

The central concepts used by classic works to understand the historic construction of modern economies are social *differentiation* and cultural and organisational *rationalisation*. There is not enough space here to dig deeper into the elaboration of these themes in the classics. However, we will briefly discuss some of the theoretical development that stems from the classics, as well as from Polanyi (2001 [1944]) and Parsons and Smelser (1956). These issues return us to 'general' sociological theory and the constitution and consequences of (economic) modernity (e.g., Giddens, 1990; Wagner, 2008). As Bourdieu argued, to understand the character of the modern economy we must not only understand the genesis of 'economic' dispositions among the actors, but also the genesis of the economic field itself and the process of differentiation and autonomisation that creates the economy as "a cosmos obeying its own laws" (Bourdieu, 2005, p.5).

There are different approaches to this question, but all revolve around the same theme, discussed in the classics and echoed in contemporary sociology:

> In modern market societies the orientation of action toward self-interest is socially legitimate in economic contexts. Consequently, the models of orthodox economics are oriented toward motives of action that are *socially institutionalized* for economic contexts of modern societies. (Beckert, 2002, p.14 [our italics])

The general explanation of how this institutionalisation of 'ethical neutralisation' and 'depersonalisation' was achieved is through differentiation and rationalization (Schluchter, 1981). Robert Holton (1992) systematised the differentiation theories produced by the classics (and by Polanyi and Parsons) by distinguishing between theories that focus on the differentiation of *social functions* (economic, political, religious, etc.), *power* (economic, political, religious, etc.), *practises and perceptions* (e.g., instrumental rationality from normative action), *institutions* (the separation of household and firm, or of market and kinship exchange), and *social roles* (employer from employee, consumer from producer, etc.). Besides Habermas (1985; cf., Sitton, 1998), who combined Marx and Weber with Parsons and Smelser's perspective on the economic system, Luhmann is perhaps the foremost developer of Parsons' analytical description of the evolution of the economy as an externally and internally differentiated system. In particular, Luhmann (1982, 1988) focused on the roles produced by the evolvement of markets and the utilisation of money as an abstract and generalised medium of communication.

Even though they are not based on such a general approach, and even though they are often much more empirical (not always historical but often ethnographic), it is perhaps within the basic understanding of such processes of differentiation that we can best understand the analyses of specific *economic institutions* from a sociological viewpoint – institutions such as money and credit (e.g., Carruthers and Ariovich, 2010; Dodd, 1994; Ingham, 2004), markets (e.g., Abolafia, 1996; Aspers, 2010, 2011; Bourdieu, 2005; Knorr-Cetina and Preda, 2005), and capitalism (Centeno and Cohen, 2010; Ingham, 2008; Habermas, 1984, 1985; Trigilia, 2002). However, we must be careful not to distinguish too strictly between these analyses of particular institutions and the embeddedness approaches mentioned above, since they are really two sides of the same coin.

7 Conclusions

This depiction of economic sociology, old and new, is of course only a crude sketch, and we could not mention worthwhile contributors. We have tried to indicate the great variation in theoretical perspectives and empirical areas of study. Even so, we have also argued that a common theoretical project unifies these approaches: the desire to develop alternatives to neoclassical explanations of economic action and organisation. Besides the specific questions addressed by individual empirical studies, there are two basic questions that drive much of economic sociology. The first, 'Why are the neoclassical assumptions about action problematic?', and the second, 'How are rational economic actions and systems produced?'

We have clarified the sociological answers to these questions by schematically distinguishing between three theoretical approaches. This is, it seems to us, the theoretical contribution that sociology offers to the analysis of economic systems, organisations, and action.

We should be cautious, however, in regarding these three approaches as distinct or mutually exclusive. In reality, most analyses combine elements from these approaches, or transcend the analytic divisions between them. We should also be cautious about drawing sharp distinctions between the 'new' economic sociology and the 'old', just as we should be careful about taking the distinction between 'economic' and 'other' sociology too literally. In our view, the similarities between different approaches within sociology are often more striking than the differences.

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